



# **OXFORD ANALYTICA**

**MALAYSIA**

**FISCAL TRANSPARENCY**

**Country Report 2006**

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# MALAYSIA



## COMPLIANCE RATINGS

<i>Fiscal transparency</i>	2006	2005	2004	2003
Clarity of roles	●●●	●●●	●●●	●●
Availability of information	●●●●	●●●●	●●●●	●●●●
Budget preparation	●●●●	●●●●	●●●●	●●●
Accountability	●●●●	●●●●	●●●●	●●●●
<b>Score</b>	<b>3.75</b>	<b>3.75</b>	<b>3.75</b>	<b>3.25</b>

## OUTLOOK & COMMENTARY

Overall in 2006, Malaysia continued its commitment to transparency. The transformation of government-linked companies (GLCs) continued apace in 2006, with commentators praising the increased business-mindedness with which they are now being run, and this process is expected to continue in 2007. However, the true impact and value of the various 'books' detailing guidelines for GLC transformation will take several years to become apparent.

In other areas, the government continues to tackle corruption through various measures, but commentators have seen the success of these as mixed. Again, some of the measures have just been put into place, so the impact is likely to be seen over the longer term. Furthermore, in the *Ninth Malaysia Plan 2006-10* the government re-iterated its commitment to the controversial target, set out in the New Economic Plan, of 30% *bumiputera* (i.e. indigenous peoples and Malays) ownership in business.

## EXECUTIVE SUMMARY

### 3.75 Compliance in progress

In 2006, Prime Minister Abdullah Ahmad Badawi's government has started to tackle some of the priorities which it highlighted last year as important, including the restructuring of the domestic corporate sector and tackling corruption.

In the restructuring of the domestic corporate sector, the greatest direct government activity over the past twelve months has been the gradual and ongoing reform of government-linked companies (GLCs). This process started in 2005 and is overseen by the Putrajaya Committee on GLC High Performance (PCG) within Khazanah Nasional Berhad, the government's asset manager. Key performance indicators, although only headline ones, were introduced in the 15 largest GLCs and 2006 saw three manuals launched setting out guidelines for the transformation of GLCs: the *Silver Book* (on social responsibility), the *Green Book* (on enhancing board effectiveness) and the *Red Book* (on reviewing and revamping procurement procedures). The *Silver Book* also requires GLCs to declare the costs of their social obligations, meaning greater transparency on quasi-fiscal activities. Commentators have observed the emergence of a business mentality in GLCs, which have recruited senior officers from the private sector. Reporting on financial information of development financial institutions (DFIs) has improved, but information on their relationship with the government could benefit from additional disclosure.

There was a further advance in efforts to tackle corruption in 2006 with the development of a National Integrity Index, the opening of the Anti-Corruption Agency Academy in December 2005 (with the aid of the OECD), and the hosting of the Organisation of Islamic Countries (OIC) inaugural corruption and integrity forum. While some commentators have questioned the efficacy of these measures and the true nature of open tendering in the procurement process, the government has reiterated its determination to tackle corruption.

The parliamentary Public Accounts Committee (PAC) examines accounting and financial matters, and reviews any findings raised in the Auditor General's reports. Fiscal transparency would benefit from the PAC being more involved in budget performance monitoring and by requesting and/or following up remedial action taken by the Anti-Corruption Agency or the Office of the Attorney General. Nonetheless, the MoF, in its role as a central agency, monitors budget performance and works closely with the Auditor General, Accountant General and the PAC on issues related to government financial matters.

Malaysia continues to meet the IMF's Special Data Dissemination Standard (SDDS) for coverage, periodicity, and timeliness of central government data and public sector data. Information on taxes, procurement, and ethical standards for civil servants is clear and publicly stated.

Malaysia's overall score is unchanged from last year.

## 1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES



Enacted

**The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.**

### Structure, functions, and responsibilities of government

Malaysia is a federal state comprising 13 states and three federal territories under a constitutional monarchy. The Yang di-Pertuan Agong (the Supreme Ruler) acts as the constitutional head of state while a prime minister and cabinet exercise executive power. The Malaysian constitution sets out the distribution of legislative and executive powers between the federation and the states, as well as the organisation of the judiciary and the responsibilities of the Supreme Court.<sup>1</sup> The federal parliament has two chambers -- the Senate (Dewan Negara) and the House of Representatives (Dewan Rakyat) -- and is the highest legislative body in Malaysia. Section V of the constitution outlines the division of power and relations between the federal government and the states.

The state governments are headed by ceremonial State Rulers; where there is no hereditary ruler a governor is appointed by the Yang di-Pertuan Agong to be the ceremonial head of state. States are political entities with an executive chief minister (Menteri Besar); governments are elected through general elections for the unicameral legislatures held every five years. State legislatures may enact laws as long as they are consistent with federal laws. Local governments are appointed by the state governments or, in the case of the territories, appointed directly by the central government for terms of three years. According to Article 95a of the constitution, the National Council for Local Governments is responsible for ensuring that policymaking at all three levels of government is integrated and operates with minimal overlaps where there are concurrent obligations. State and local governments have a relatively well-defined number of responsibilities. The federal constitution and the Local Government Act 1976 establish the Ministry of Housing and Local Government (KPKT) with responsibility for implementing all laws pertaining to local government, the development of local government policy and the implementation of all local government functions.

For fiscal accounting and reporting purposes, the central government covers all federal (central) government budgetary units, including ministries, departments, and judiciaries. The non-financial public sector includes the general government -- the federal (central) government, statutory bodies, state governments, and local governments -- and large non-financial public enterprises (NFPEs).<sup>2</sup>

Since independence in 1957, no change of government has taken place at the federal level. The United Malays National Organisation (UMNO) -- the dominant party in Barisan Nasional, the ruling coalition -- controls the key economic positions in the cabinet. Malaysia's federal political system became highly centralised during Dr Mahathir Mohamad's 22 years as prime minister (1981 - 2003). Commentators perceived Dr Mahathir's strong leadership style and multiple leadership positions as going beyond the clear constitutional division of powers among the three branches of government.<sup>3</sup> In October 2003, Abdullah Ahmad Badawi became prime minister and minister of finance. Commentators have underscored that since coming into power, Abdullah has exercised a different style of administration, which includes prioritising efforts to dismantle rent-seeking behaviour, restructure the domestic corporate sector and tackle corruption.<sup>4</sup>

### **Coordination and management of budgetary activities**

Clear mechanisms for the coordination and management of budgetary activities are established. The Ministry of Finance (MoF) has overall responsibility for the coordination and management of budgetary and extra-budgetary activities. The Treasury (under the MoF) is responsible for compiling the annual budget, which is divided into an operational budget and a development budget. Articles 99-101 of the constitution set out the basic framework for budgetary activities; the budget formulation process follows a pre-specified set of actions between the government and parliament that are coordinated by the Treasury's Budget Management Division.<sup>5</sup>

In practice, the Treasury prepares the annual operational and development budget. The annual operational budget includes salaries, operational expenses for government offices, and the constitutional grant for the state authorities. Meanwhile, the development budget is prepared based on the cash flow requirements for the projects approved by the Economic Planning Unit (in the Prime Minister's Department) as part of each five-year *Malaysia Plan*, which provides for capital-intensive projects for social and economic development. The federal government provides both general and developmental grants on an annual basis to local authorities and statutory bodies.

The Treasury monitors the expenditure of all ministries and government departments and all matters regarding financial procedures and accounting. Fiscal objectives include the promotion of sustainable economic growth, the improvement of national economic resilience, and a more equitable sharing of national wealth. In addition, a Macroeconomic Inter-Agency Planning Group meets regularly to coordinate fiscal policy responses across agencies. The group includes representatives from the MoF, the central bank, the Economic Planning Unit, and the Department of Statistics.

### **Relations between government and public sector agencies**

The Central Bank Act establishes the Bank Negara Malaysia (BNM) as banker and financial adviser to the government, under the oversight of the minister of finance. After some concern in the late 1990s and early 2000s, commentators now believe that the BNM has a high degree of operational autonomy.<sup>6</sup> Overall, the BNM has enhanced transparency practices by improving its communication strategy to explain its relationship in policy and technical areas with the MoF, and it continues to work in close contact with government departments in order to ensure greater coordination among macroeconomic policies.

Information on the relationship between the government and the development financial institutions (DFIs) and NFPEs has improved -- but it could still benefit from additional disclosure. In its 2003 Article IV consultation, the IMF encouraged the government to disseminate more information on the quasi-fiscal expenditures of the NFPEs and to gradually incorporate the funding of the DFIs within the formal budget process.<sup>7</sup>

The government-owned DFIs supply financial services to the government's priority sectors of infrastructure, small and medium *bumiputera* (i.e. Malays and indigeneous peoples) entrepreneurs, shipping, high-technology industry, and manufacturing. Six of the 13 DFIs are covered by the Development Financial Institutions Act 2002 and are supervised by the BNM to ensure operational and financial soundness. The BNM's *Annual Report 2005* reports on the sources and uses of funds, direction of lending, and non-performing loans and loan loss provisions of all 13 DFIs, but it does not explicitly identify what fraction of DFI activity is policy-directed and hence quasi-fiscal in nature.<sup>8</sup> Similarly, the annual reports of the DFIs do not distinguish between their commercial and government-mandated services.

The annual *Economic Report* quantifies development expenditure by the 30 large NFPEs, but only in a consolidated -- not disaggregated -- form.<sup>9</sup> The *Economic Report* also identifies major activities, without distinguishing between commercial and government-mandated ones, of the big NFPEs such as the national oil company Petroliaam Nasional Bhd (Petronas: 100% government-owned and unlisted, although some subsidiaries are listed), Tenaga Nasional Bhd

(electricity, partially privatised and listed), and Telekom Malaysia Bhd (telecommunications, partially privatised and listed). One NFPE, Permodalan Nasional Bhd (PNB), has issued annual reports that detail its non-commercial quasi-fiscal activities.<sup>10</sup>

### **Government involvement in the private sector**

In the early 1980s, Malaysia adopted the 'Malaysia Inc' model of close collaboration between the public and private sectors as a means of shifting from an agrarian resource-based economy to a diversified industrial one. Directly acquired private equity in companies and commercial banks has been a significant part of that model, which in addition seeks to create an adequate business environment. In 2004, the second minister of finance said that government involvement in the private sector was three-fold: as the developer and provider of public goods -- including law and order, and infrastructure and non-commercial services; as a regulator providing a level playing field; and as investor, where the government owns and operates the production of economic goods and services.<sup>11</sup>

The only government agency allowed to hold equities is Minister of Finance Inc (MoF Inc, also known by its Malay abbreviation, MKD), a body corporate established under the MoF Inc Act and operating within the Investment, MKD and Privatisation Division of the MoF. Equities held by MoF Inc in statutory bodies and companies (listed and non-listed) are identified in the *Public Accounts Statement of the Federal Government* with their declared book value.<sup>12</sup>

In 1993, Khazanah Nasional Berhad was incorporated to manage the commercial assets of and undertake investments for the government. The majority shareholder is the MoF Inc with one share owned by Tanah Persekutuan (the Federal Land Commissioner). Khazanah Nasional is an agency of MoF; the minister of finance is the chairman of Khazanah but the CEO is recruited from the private sector.

Public sector entities with substantial equity stakes include Petronas and the seven Government-linked Investment Companies (GLICs). The GLICS include: the Employees Provident Fund (EPF: a pension fund for private sector employees, an agency of MoF); Khazanah Nasional; Kumpulan Wang Amanah Pencen (KWAP: the pension fund for public sector employees); Lembaga Tabung Amanah Tentera (LTAT: the armed forces pension fund); Lembaga Tabung Haji (LTH: the pilgrim's fund); MoF Inc; and PNB. Publicly listed companies in which government, through the GLICs, holds a controlling stake (defined as the ability to appoint directors and senior management and to make major decisions -- including awarding contracts and dealing with strategy, restructuring and financing, and acquisitions and financing -- are known as Government-linked Companies (GLCs).<sup>13</sup>

In May 2004, prime minister Abdullah announced a rationalisation of Malaysia Inc that involved clarifying and changing the relations between government and the GLCs.<sup>14</sup> This process transferred all equities held by MoF Inc to Khazanah Nasional and the announcement of a GLC Transformation Plan with the aim of enhancing their performance and consolidating concepts of governance, shareholder value and stakeholder management.<sup>15</sup> This process was furthered when the Putrajaya Committee on GLC High Performance (PCG) was formed by Khazanah Nasional, which remains the PCG's Secretariat, to oversee the Transformation Plan.<sup>16</sup>

According to the PCG, in 2006 the value of government holdings in the 57 biggest GLCs was 261 billion ringgits (76.7 billion US dollars), amounting to 36% of the total market capitalisation of Bursa Malaysia.<sup>17</sup> Khazanah Nasional publishes a list of its holdings of Malaysian GLCs, listed and unlisted.<sup>18</sup> The holdings of the other GLICs are not publicly available, however. In 2006, Shahrir Samad, chairman of the parliamentary Public Accounts Committee PAC) said he wanted a clear and obvious system of political oversight of government investments to ensure transparency and openness. Shahrir said he was unclear how those investments were being monitored currently and said the PAC was waiting for the prime minister to reply to a letter asking how government invested public funds in the private sector.<sup>19</sup>

In 2006, rationalisation of GLCs started to take hold as key performance indicators (KPIs) are gradually introduced: in March 2006, the 15 largest GLCs (the G-15) announced their headline KPIs. In 2006, in line with the transformation timetable, the PCG launched a series of new initiatives.<sup>20</sup> Some of these initiatives are in the form of manuals such as the *Green Book* (about enhancing board effectiveness, developed with the Malaysian Institute of Corporate Governance) and the *Red Book* (procurement guidelines and best practices).<sup>21</sup> These, and the three more initiatives launched in September 2006<sup>22</sup>, are overseen by the Transformation Management Office (TMO) which was set up at secretariat level to manage the roll-out and implementation of all ten initiatives.<sup>23</sup> The government expects GLCs to increase their investments and spending to make up for the shortfall arising from the government's move to cut its own expenditure and reduce the budget deficit.<sup>24</sup> Appointments to key positions have been made in a transparent manner on a contract basis, with the objective of generating economic value. Commentators have noted, however, that the pace of these changes has been slow and cumbersome.<sup>25</sup>

Recent government-mandated activities of the GLCs have been included in the central budget, increasing transparency. For example, the 2007 Budget included private-financed initiatives (PFIs) worth 20 billion ringgits (5.6 billion US dollars) -- including government schools, quarters, and office buildings -- to be financed and owned by the EPF and KWAP and leased back to government.<sup>26</sup> The 2007 Budget also included an allocation of 2.3 billion ringgits (650 million US dollars) for an ambitious business hub in the Iskandar Development Region in the state of Johor that is planned to be three times the size of Singapore and is projected to receive 47 billion ringgits (13 billion US dollars) in investment (20 billion ringgits from government; 5.9 billion US dollars) over the next five years. It is to be developed by a new GLC (the South Johor Investment Company) owned by Khazanah Nasional (60%), the EPF (20%), and a company owned by the Johor state government.<sup>27</sup> The government expects the EPF and Khazanah Nasional to invest an additional 3.4 billion ringgits (950 million US dollars) and expects private sector investors, local and foreign, to inject 'massive amounts of capital' in Iskandar over the next 5-10 years.<sup>28</sup>

The government has embraced a privatisation policy since 1983 and published a privatisation master plan in 1991; more than 450 privatised projects were operating in December 2003. The Economic Planning Unit of the Prime Minister's Department prepares a five-year plan for privatisation and undertakes a mid-term review of each plan. Privatisation is a part of the government's affirmative action goals: 30% of equity in a privatised entity must be allocated to *bumiputera* participants; and foreign participants are limited to 25%.<sup>29</sup> Despite criticism from commentators that this strategy is misguided -- they claim common practice is for *bumiputera* shareholders to sell their equity stake -- the strategy is set to continue. In his Ninth Malaysia Plan speech to parliament, Abdullah reiterated that "the privatization programme will remain as a foundation to assist qualified *bumiputera* to participate in business".<sup>30</sup>

## **There should be a clear legal and administrative framework for fiscal management**

### **Legal framework for budgetary activities**

Article 99 of the constitution sets out the general framework for budgetary activities; it is complemented by Section 6 of the Financial Procedures Act (1957), Sections 2 and 3 of the Development Fund Act (1966), and Treasury Instructions governing the planning, programming, execution and reporting of the budget. In particular, Treasury Instructions 7 and 13 provide for oversight and control of the expenditure of federal funds through three stages: formulation, presentation and approval by the Treasury based on a comprehensive programme agreement with agencies that links financial allocation to programme specification; implementation or administration of a programme/project; and evaluation of programme outcome, auditing and reporting.

The Treasury's budget preparation and examination process has now been converted into a (non-zero-based) two-year process, containing annual budgets, programmes and a performance report to be submitted to parliament every

year as mandated by the constitution and the Financial Procedures Act (1957). The shift to two-year budget planning was aimed at providing a flexible time frame for the preparation and planning of resource allocation and utilisation.<sup>31</sup>

### **Legal framework for taxation**

Under Article 94 of the constitution, all taxes or rates must be levied under the authority of federal law. Tax laws and regulations are easily accessible and understandable. Information on the tax system and tax incentives for investors is published in the *Economic Report* and on the websites of the Treasury and the Malaysian Industrial Development Authority.<sup>32</sup> Changes to tax rates, regime and administration are also announced in the annual budget speech.<sup>33</sup>

The Inland Revenue Board (IRB) was formed in 1996 to administer the direct tax laws, replacing the former Department of Inland Revenue, with a view to greater autonomy and efficiency in tax administration. A Self Assessment System is in effect. Direct tax laws, regulations, rulings, guidelines and forms are available on the IRB's website.<sup>34</sup> Tax decisions can be appealed to the Special Tax Commissioner and then to the High Court. From 2007, in addition to the IRB's plans for a new tax audit and investigation framework to act as guidelines clarifying the processes of these two areas, tax rulings are to be announced in advance to ensure certainty of tax treatment and increase transparency in tax administration.<sup>35</sup>

Petroleum is a major revenue source for the Malaysian government. Malaysian states have some limited tax powers over land and natural resources, but the majority of taxing power lies with the central government. Local governments can also obtain revenues from three main sources, as established in Part 5 of Section 39 of the Local Government Act (1976): rents and fees for services, grants/subsidies given by the central or state government (inter-governmental fiscal transfers) and local taxation. State governments supervise the locally raised taxes.

### **Ethical standards for public servants**

Ethical standards of behaviour for public servants are provided in Public Officers (Conduct and Discipline) Regulations of 1993, which replaced the Public Officers (Conduct and Discipline) General Orders (1980). Additional provisions are stipulated in the Prevention of Corruption Act (1957), the Anti-Corruption Act (1997), and service circulars issued by the Public Service Department. In October 2006, the government emphasised its commitment to fight corruption, with deputy prime minister Najib Tun Razak reiterating that no-one was above the law.<sup>36</sup>

The Anti-Corruption Agency of Malaysia (ACA) started operations in 1963. It is part of the Prime Minister's Department and is headed by a director-general who is appointed by the Yang di-Pertuan Agong on the advice of the prime minister. The Anti-Corruption Act (1997) and a description of corruption offences are available on the ACA website.<sup>37</sup> The ACA remains central to the government's anti-corruption efforts: the Ninth Malaysia Plan commits to beefing up the ACA with more manpower and equipment, training for officers in latest techniques, and 'other enforcement tools'. In 2005, the ACA investigated 1,441 cases and made 485 arrests that led to 205 charges being laid; no statistics were available for convictions.<sup>38</sup>

Even so, in 2006 the prime minister admitted that government efforts appeared to be going against the tide.<sup>39</sup> A five-year National Integrity Plan (NIP) to reduce corruption, improve public service delivery, enhance corporate governance and business ethics, strengthen the family institution and improve quality of life, launched in 2004, included the establishment of the Integrity Institute of Malaysia (IIM).<sup>40</sup> The IIM attempts to create spaces for citizens concerned about the level of corruption and to promote transparency and integrity. A National Integrity Index, with sub-indices focusing on corruption, the delivery of public services, and corporate governance and business ethics, was also developed. Other recent initiatives within the anti-corruption drive include an Organisation

of the Islamic Conference (OIC) corruption and integrity forum held in Malaysia<sup>41</sup> and the opening of the Malaysia Anti-Corruption Academy in December 2005.<sup>42</sup>

In the past, commentators have noted that the public perceived the process for lodging complaints with the head of a government department, the Public Complaints Bureau, and the ACA as ineffective.<sup>43</sup> The ACA has increased efforts to be perceived as an impartial institution, for example by tracking the number of prosecutions and convictions in each year, investigating and charging top officials, and allowing citizens to lodge complaints on its website.<sup>44</sup> Nevertheless, commentators have underscored that the ACA must be restructured to make it independent of the executive arm of the government, while its director general should be provided with security of tenure similar to that of judges and the auditor general.<sup>45</sup> In 2006, commentators said the ACA might now be investigating activities that had been outside its scope under Prime Minister Mahathir, but they were not impressed by the additional efforts of the ACA.<sup>46</sup>

## 2. PUBLIC AVAILABILITY OF INFORMATION

●●●● Compliance in progress

**The public should be provided with full information on the past, current, and projected fiscal activity of government.**

### Central government operations

Data on central government operations are disseminated on a monthly basis, within four weeks of the reference month, in the central bank's *Monthly Statistical Bulletin*.<sup>47</sup> Data cover the financial position of all federal government units, but not social security organisations (which are small, covering only injuries at work) or statutory bodies. They include revenues, expenditures, the deficit/surplus balance, and borrowings broken down into domestic financing (bank and non-bank) and foreign financing. The data are recorded on a cash basis and their source is the government accounting records of actual outturns.

Data on central government operations are also disseminated on a quarterly basis and within three months of the end of the reference quarter in the Treasury's *Quarterly Updates of the Malaysian Economy*.<sup>48</sup> The data cover budgetary accounts, including revenue (direct and indirect tax receipts and excise and export duties), expenditure (operating and development), the deficit, and borrowings (federal government debt, recoverable loans, issues of Malaysia Government Securities and Government Investment Issues, and external debt). The Treasury website holds *Quarterly Updates* dating back to the third quarter 2003.

The MoF's annual *Economic Report*, issued in September to accompany the budget speech, reports federal government revenue disaggregated by type, operating expenditure disaggregated by object and sector, development expenditure disaggregated by sector, and debt disaggregated by type.<sup>49</sup>

### Public sector operations

The *Economic Report* gives summary information on the consolidated financial position of state governments, the consolidated general government financial position (federal government, state governments, local authorities and statutory bodies), the financial position of NFPEs, and the consolidated public sector financial position.<sup>50</sup> The source data are obtained from the office of the Accountant General or the accounting office of the respective units of government or from the NFPEs.

The report also includes the expected revenue figures for the current and following year, and revenue figures for the previous year. Summary data on the fiscal position of the consolidated state governments, local authorities, statutory bodies and large NFPEs, for the current year and previous four years, are also published.<sup>51</sup>

As noted above, the annual budget does cover certain quasi-fiscal activities (QFAs) of some GLIC/NFPEs, but not the public financial institutions and not for all public enterprises. QFAs are generally not open to substantial public scrutiny; identifying and quantifying QFAs thus depends critically on high-quality reporting from the DFIs and NFPEs themselves. In the past, commentators said such reporting was not readily available. Guideline 4.2 of the *GLC Transformation Manual* and the *Silver Book* address these shortcomings for GLCs. GLCs are expected to clarify their social obligations and attempt to identify the costs and benefits, if any, of such obligations, and thus provide more detailed information on quasi-fiscal activities.<sup>52</sup> The *Silver Book* sets a deadline for this process: by the

end of June 2007, all GLCs are at a minimum, expected to have established a comprehensive policy on their social obligations and have communicated it to their stakeholders, have determined the financial target for their spending on social obligations, and have reported the details of their social obligations to GLICs, the PCG, and relevant regulators. The *Silver Book* advises GLCs to give priority to enhancing shareholders' returns and to meeting the needs of their consumers and employees, and to accept that direct government funding is only a last resort.<sup>53</sup>

## **A commitment should be made to the timely publication of fiscal information.**

### **Debt reporting**

In accordance with its commitments to the IMF's Special Data Dissemination Standard (SDDS), and in compliance with the provisions of the Financial Procedures Act (1957), the Malaysian government releases monthly data on central government debt broken down into domestic currency debt and foreign debt, debt guaranteed by the government, and maturities. Foreign debt is disaggregated by the issuing currency.<sup>54</sup>

Since the 1997-98 Asian financial crisis, the central bank has adopted the practice of releasing the coverage ratio between total external short-term debt and its gross international reserves. The BNM's *Annual Report* discloses the composition of central government debt and financial assets, while the *Economic Report* provides summary information of public and total external debt. State governments are not permitted to issue debt; deficits are financed by federal government grants and the use of accumulated financial assets of state governments. This information is compiled in the *Public Accounts Statement of the Federal Government*, and audited by the National Audit Department. Commentators in 2005 had highlighted the paucity of data on the financial status of the states' economic development corporations and the lack of remedial action against state governments that failed to repay loans owed to the federal government. The federal government has since resolved the problem by -- in accordance with the financial ability of each of the relevant state governments -- restructuring loans, extending loan tenure, or offsetting the loan repayment against annual grants to the state.<sup>55</sup>

The 'G2 Memorandum Accounts Statement' of the *Public Accounts Statement of the Federal Government* includes accounts that reflect the government's assets and liabilities that are not shown in the balance sheet. The assets portion consists of recoverable loans, investments, fees to international bodies and time deposits, whereas the liabilities portion consists of public debts, guarantees, notes payable, unclaimed shares accounts and the central depository accounts.<sup>56</sup>

### **Advance release calendars**

Advance release calendars giving at least one-quarter advance notice of their precise release dates for the fiscal sector are available on the website of the central bank and, for the national accounts, the website of the Department of Statistics.<sup>57</sup> The IMF's SDDS website announces exact release dates one week in advance of the release.<sup>58</sup>

### 3. OPEN BUDGET PREPARATION, EXECUTION, AND REPORTING

●●●● Compliance in progress

#### Fiscal policy objectives, macroeconomic framework, and risks

##### Fiscal policy objectives

Three major publications define a framework of fiscal policy objectives within which annual budget proposals are made. *Vision 2020* (published by the Prime Minister's Department), originally conceived in 1991 and consolidated in 1998, sets 2020 as a deadline for Malaysia to become a fully developed country.<sup>59</sup> An *Outline Perspective Plan*, for example the *Third Outline Perspective Plan 2001-2010* (published by the Economic Planning Unit of the Prime Minister's Department in 2001), marks each ten-year phase of the journey to accomplish *Vision 2020*.<sup>60</sup> A five-year *Malaysia Plan*, for example the *Ninth Malaysia Plan 2006-2010*, provides more detailed projections and guidance for annual budgets.<sup>61</sup> The Malaysia Plans are subject to a mid-term review: the *Eighth Malaysia Plan* was reviewed on 30 October 2003.<sup>62</sup>

The minister of finance makes an annual budget speech, usually in September. The budget speech briefly reviews macroeconomic performance in the year to date and then details new policy thrusts, proposes the government's allocation for operating and development expenditure, and highlights macroeconomic assumptions for the forthcoming calendar year.<sup>63</sup> The minister also releases the *Economic Report* with comprehensive quantitative background for the budget speech.

##### Macroeconomic framework

The annual budget is prepared and presented within the broad macroeconomic framework provided by the current development plans, the *Outline Perspective Plan* and the *Malaysia Plan*. Macroeconomic assumptions are provided in the *Economic Report*. The MoF uses a quantitative macroeconomic model as part of its budget calculations, but it does not disclose the equations or identities of the model.<sup>64</sup>

##### Fiscal risks

Fiscal risks are not explicitly identified in the budget speech, but the accompanying *Economic Report* concisely details the domestic challenges likely to be faced in the following year and more extensively summarises risks and expectations in the global economy and Malaysia's major trading partners.<sup>65</sup> Possible variations in key forecasting assumptions are addressed in more detail in budget preparation and economic forecasting.<sup>66</sup> The outlook for total federal government debt and the consolidated financial positions of the state governments, NFPEs, general government and the public sector are identified and quantified in the *Economic Report*.<sup>67</sup>

The *Economic Report* quantifies the revenue contributed from oil (45 billion ringgits, 37% of total government revenue; 13.2 billion US dollars) but does not calculate a non-oil primary balance; such a balance -- which is calculated by the IMF for Malaysia -- would highlight any distortions from temporarily high oil prices.<sup>68</sup> The 2007 Budget does make explicit the government's assumptions for oil-related revenue, but without considering the associated risks.<sup>69</sup> Commentators have noted that a number of NFPEs and GLCs operate with off-budget accounts; a situation which prompts calls for such operations to be included in the federal budget for independent scrutiny.<sup>70</sup>

## **Fiscal sustainability**

The implications for fiscal sustainability are described in the *Economic Report* that accompanies the Budget and is in the *Malaysia Plan*. With strong economic performance and high oil-related revenue, the government has chosen an expansionary fiscal stance that aims to facilitate the short-term demands of a growing economy while ensuring fiscal sustainability over the medium term.<sup>71</sup> The *Ninth Malaysia Plan* foreshadows a gradual reduction of the federal government deficit from 3.8% of GDP in 2005 to 3.4% in 2010.<sup>72</sup> Highly priced oil-related revenues are one key to this fiscal sustainability strategy: the federal government primary non-oil balance would have been a deficit of 6.9% of GDP in 2005 and 7.9% in 2006.<sup>73</sup>

The primary domestic and external debt balances of the federal government are stated in the *Economic Report*, with the latter balance disaggregated into its major currencies. Figures for the national debt and the financial positions of the consolidated state governments, consolidated general government, consolidated NFPEs, and consolidated public sector, are also given. The debt servicing capacities of the federal government (for example, the debt service ratio to government revenue) and of the national external debt (such as the external debt service ratio to exports of goods and services) are stated.<sup>74</sup> The *Economic Report* indicates explicitly the amount and likelihood of new domestic and external borrowings.<sup>75</sup>

As noted above, the consolidated public sector financial position is stated in the *Economic Report*. This coincides with the best fiscal transparency practice recommendation from the IMF for an economy that might have significant quasi-fiscal activities performed by NFPEs and DFIs. The consolidated public sector position benefits from the good revenue performance of NFPEs, particularly Petronas. The revised estimate for the public sector position in 2006 is a surplus of 17.6 billion ringgits (5 billion US dollars), equal to 3.2% of GDP, and the projection for 2007 is a surplus equal to 5.6% of GDP.<sup>76</sup>

The 2005 budget speech included a review of the tax system and foreshadowed the introduction in 2007 of a single consumption tax, a Goods and Services Tax (GST), based on the value-added concept.<sup>77</sup> However, in 2006, government officials indicate that no date has been fixed for the implementation of the GST and that the relevant legislation and preparations are in abeyance.<sup>78</sup> The 2007 Budget does not mention the GST, reinforcing earlier indications that the GST is not firmly linked to the deficit reduction plan.

## **Budget presentation**

### **Data reporting**

Malaysia meets the IMF's SDDS for coverage, periodicity, and timeliness of central government data and public sector data, although it has taken a flexibility option for reporting non-financial public sector data, expanding the reporting period to ten months. For consolidated central and state-level fiscal data, annual reports are provided within six months of the end of the financial year. Data on central government activities are produced monthly within one month, but lack any ministerial comment or comparisons with budget projections. The *Economic Report* gives summary information of operating expenditures, development expenditures, revenues, and the financial position of state governments and non-financial public enterprises. Data on public financial institutions (the DFIs) focuses on source and uses of funds and offsets for contingencies.

Contingent liabilities that may arise from external and domestic loan guarantees made by the government to statutory bodies and GLCs are disclosed in the 'G2 Memorandum Accounts Statement' of the *Federal Public Accounts*.<sup>79</sup> The Treasury registers these type of liabilities when the guaranteed performance indicators are not achieved, as in the cases of the Seremban-Port Dickson toll highway, the Putra and Star light rail systems, the National Sewerage System, and Ekran's contract for the delayed Bakun Dam project.<sup>80</sup>

As part of its monthly reporting of gross international reserves, the central bank includes the amount of contingent liabilities denominated in foreign currency and their maturities.<sup>81</sup> Additional information in budget papers -- such as a statement of the policy purpose of each provision that may give rise to a contingent liability, the duration of guarantees, and the intended beneficiaries -- would enhance transparency in budget documentation, especially since contingent liabilities are difficult to recognise under the cash accounting currently used by the government.

## **Budget execution and monitoring**

The Financial Procedure Act (1957) provides for the control and management of the public finances and for financial and accounting procedures, including the collection, custody and payment of the public moneys of the federation and of the states, and the purchase, custody and disposal of public property (other than land) of the federation and states. Financial and accounting procedures are further explained and expanded in the Treasury Instructions -- a compendium of detailed rules and regulations for the guidance and compliance of all public officers.

The Treasury distributes to all ministries the basic framework and guidelines needed to prepare and plan their annual budgeting expenses. Once all the ministries and statutory bodies have prepared and submitted their programme and performance budget estimates, the Treasury (Budget Division) will carry out the Budget Screening Process. Every estimate submitted will be screened to make sure it benefits economic growth and the improvement of national economic resilience. Once satisfied with the final amendments, the Treasury will then present the Supply Bill together with the *Programme and Performance Budget Estimate Book* to the parliament for approval. It includes the classification code for the expenditure by purpose of expenditure, controlling officer, programme, activity and object of expenditure. The book also provides details on activity performance of each agency and statutory body.

Control over expenditure is exercised initially at the agency level. The controlling officer in the respective agencies is responsible to monitor their expenses. All ministries and agencies are required to record details of all expenditures incurred and commitments made on a daily basis and submit to the Treasury (Budget Division) their quarterly reports on the status of both the operating and development budgets. The Prime Minister's Department monitors the execution of the development expenditure to obtain information on development projects in terms of physical and financial progress. The formation of a task force to monitor projects under performance targets has improved substantially the effectiveness of budgetary implementation.<sup>82</sup>

### **Accounting basis**

The responsibility for financial and accounting procedures is vested in the minister of finance. It is the duty of the Treasury and the Accountant General Office to issue instructions and directions on accounting matters and procedures, to ensure that a proper system of accounts is established, and that procedures comply with generally accepted accounting principles and standards. The Accountant General Office is the principal accountant in the government and head of the Accounts Department of the MoF, with authority in matters of accounting procedures over the accounts of the federal and state governments.<sup>83</sup>

Central government and the majority of state government data are based on the accounting records of actual outturns; this is so because the consolidated fund by law operates as a cash account. Central government reports, tabled annually in parliament, are compiled using a modified cash accounting method, thus allowing one month for outstanding bills to be settled. Monthly central government reports are also prepared for internal circulation. The Treasury uses cash accounting with some elements of accrual accounting.

## **Procurement and employment**

Individual federal government ministries conduct their own procurement according to centralised regulations and procedures. The Government Contract Act (1949) provides legal validity for the ministries to represent the government in procurement contracts. Procurement principles and policies, including those procurement policies that support the government's objectives of stimulating local industry and businesses run by *bumiputera*, are publicly available.<sup>84</sup> Current guidelines, including Treasury Circular Letters that govern the tender process, are available on the Treasury's website.<sup>85</sup>

Government procurement is a significant part of the economy, equal to around 15-20% of GDP.<sup>86</sup> The Putrajaya Committee on GLC High Performance estimated that procurement by the 15 biggest GLCs in 2004 was equal to an additional 10% of GDP (about 50 billion ringgits or 14 billion US dollars).<sup>87</sup>

An e-procurement system (ePerolehan) is being introduced in four phases from 2000-07, to reduce bidding costs and to make the process more efficient and transparent. More than 2,000 of the 3,500 Responsibility Centres, structures formed under the Programme and Performance Budgeting System, had been equipped with e-procurement modules by late 2004.<sup>88</sup> By the end of 2005, however, only 37,160 suppliers -- only 35.5% of the total 104,650 suppliers registered with MoF -- were e-Procurement enabled.<sup>89</sup> All federal agencies in East Malaysia (Sabah and Sarawak) were scheduled to use the ePerolehan system by the end of 2006.<sup>90</sup> Tenders are also announced on a commercial website.<sup>91</sup>

In previous years, commentators and the press have highlighted a number of contracts awarded without open tender, in contrast to a very few contracts awarded through open tenders.<sup>92</sup> Commentators now note that small contracts, to Group F contractors, are awarded by open tender. But the situation for larger contracts was 'blurry' for at least two reasons: government officials seeking to award tenders to companies that could efficiently and effectively deliver goods and services had little choice but to circumvent open tender processes; and a few officials, known colloquially as "little Napoleons," relied on procurement for personal gain by patronage. Commentators doubted that any large tender was truly open and said that the practices and culture of patronage endured in certain government departments, including those that used e-procurement.<sup>93</sup>

The Putrajaya Committee for GLC High Performance recommended in 2006 that all listed GLCs adopt and apply *Red Book* procurement improvement guidelines by the end of 2006.<sup>94</sup> The *Red Book* guidelines include developing a Vendor Development Programme with clear criteria for admitting vendors, identifying an optimal e-procurement solution to limit the opportunity of leakages/graft by minimising human intervention in the process, and rolling-out the e-procurement platform. The PCG also identified risks that might delay the adoption of best practices, including organisational resistance and weak political will.<sup>95</sup>

The Public Service Department formulates uniform personnel management policies and procedures for the entire public sector. The Public Service Commission is the appointing authority for the federal civil service. Information on recruitment, training, examination, and the New Remuneration System, as well as relevant application forms, are available on the websites maintained by the two agencies.<sup>96</sup>

## **Fiscal reporting**

Section 16(1) of the Financial Procedures Act (1957) requires the Federal Financial Authority to prepare an 'annual accounts statement' immediately after the closing of accounts of that particular year. The statement is to be submitted to the National Audit Department for audit within seven months from the closing date of the financial year as required under Section 9(1) of the Audit Act (1957). The *Public Accounts Statement of the Federal Government* is prepared yearly by the Accountant General Office, on behalf of the Federal Financial Authority, to be audited by

the National Audit Department. The Auditor General's reports are tabled in Parliament and thereafter discussed by the Public Accounts Committee.<sup>97</sup>

The public account statement consists of the Balance Sheet, Memorandum Accounts Statement and Notes to the Accounts. The Balance Sheet shows the total cash and investments held by the three consolidated accounts (the Consolidated Revenue Account, Consolidated Trusts Account and Consolidated Loan Account). In compliance with the cash basis of accounting adopted by the federal government, investments held for the purpose of specific trusts are shown in the Balance Sheet. Other forms of investments, including government assets and liabilities that are not shown in the Balance Sheet, are reflected in the Memorandum Accounts Statement.

The Treasury publishes the annual *Programme and Performance Budget Estimates Book* at the end of the budget-making process. This internally distributed book provides the detailed figures, projections, and identification of performance outputs that support the actual budget tabled in parliament. Results of major budget objectives are routinely presented to parliament as a matter of tradition or as a result of questions raised by sitting members. There is no legal requirement for the Treasury to provide mid-year budget updates to parliament, and no routine updates are normally given.

## 4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY

●●●● Compliance in progress

### Data quality standards

Central government and general government data (of the non-financial public sector) are compiled under the provisions of the Financial Procedures Act (1957); the Companies Act (1965) governs the procedures for NFPEs data. Information on the methodology, sources of the data and revisions is given in the notes to the *Public Accounts Statement of the Federal Government*. Fiscal data meet the IMF's SDDS and are reported on a cash basis in ringgits. The Treasury's Accountant General Department, the central bank, and the Department of Statistics verify the internal consistency of fiscal information. Financial accountability at departmental levels rests with the controlling officers and the internal audit units. In addition, the Implementation and Coordination Unit of the Prime Minister's Department and the Treasury monitor and evaluate budget programmes to regulate and supervise the progress of activities and to obtain input for succeeding years and plans.<sup>98</sup> The Accountant General Office requests financial and budgetary performance reports from several departments and ministries, which are then incorporated into the public accounts for each fiscal year.

### Independent scrutiny of fiscal information

#### Independent audit

Government accounts go through two stages of external audit. The National Audit Department ensures that the accounts follow proper accounting principles. The parliamentary Public Accounts Committee (PAC) then scrutinises the auditor general's reports, having expanded its brief from examining compliance with financial and accounting standards to also looking at actual performance, thereby increasing parliamentary oversight.<sup>99</sup>

The National Audit Department (Jabatan Audit Negara Malaysia) -- headed by the Auditor General and independent of the executive government -- is the main auditing body for the central government, state governments, statutory bodies, local authorities, and the Islamic Religious Council. Articles 105-107 of the constitution and the Audit Act of 1957 stipulate the responsibilities of the auditor general, whose legal protection from political interference is similar to that of the federal judges.<sup>100</sup> The National Audit Department prepares the *Auditor General's Report on the Public Accounts Statement and Activities of the Federal Government Ministries, Departments And Agencies* for each fiscal year.<sup>101</sup> The document includes audits of federal government accounts and it also reports on deficiencies in budget implementation, improper payments and authorisations, inadequate record-keeping and weak internal systems and controls. The Auditor General has no direct responsibility for monitoring budget outcomes or the existing management information systems; these are the responsibilities of the controlling officers and the central agencies.

The Auditor General submits relevant reports to the Yang di-Pertuan Agong or head of the relevant state, who then submits it to the legislative assembly. Apart from the annual audit reports to both central government and each state government, the Auditor General has the right to submit supplementary reports to parliament pursuant to his responsibilities at any other time of the year. The expenditure of all federal government departments and agencies is required to be audited annually.

The PAC is a select committee of parliament appointed to examine the accounts of the federal government, the appropriation of the sums granted by parliament to meet public expenditure, and the reports of the auditor general. The PAC's role and responsibilities relate to examining accounting and financial matters, and to issues raised in the auditor general's reports. Some commentators judge that the PAC should be more involved in monitoring budget performance (by requesting information on operating, development or accounting programmes) and requesting and/or following up on any remedial action taken by the ACA or the Office of the Attorney General (Jabatan Peguam Negara Malaysia). Nonetheless, the MoF, in its role as a central agency, monitors budget performance and works closely with the auditor general, accountant general and the PAC on issues related to government financial matters.<sup>102</sup>

Commentators noted that the PAC was inconsistent and agreed that it had the power to call public servants for hearings, but that this power was not used.<sup>103</sup> A further concern was that the Auditor General was effective in identifying wastage and malfeasance, but neither the PAC nor the whole parliament pursued the faults identified in the reports from the auditor general.<sup>104</sup> A recent report by the Auditor General identified that government agencies had been unnecessarily spending money on computers, to the extent of hundreds of millions of ringgits, leading specialist journalists of financial affairs to note that historically government departments and state governments had ignored reports from the Auditor General and that the errant are rarely brought to task.<sup>105</sup>

### **National Statistics Agency**

The main duties of the Department of Statistics (DOSM)<sup>106</sup> involve gathering and releasing government data, particularly macroeconomic information such as supply, demand, trade, inflation and other social/demographic figures. The gathering and reporting of fiscal data is mainly the task of the Accountant General Office, the BNM and the Treasury. All statistics collected and published by the DOSM are governed by the Statistics Act 1965 (revised 1989), which grants the DOSM independence to determine data coverage, contents, methodology and periodicity.<sup>107</sup>

## INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Malaysia between 1 and 8 November 2006:

### Ministry of Finance

#### 3 November 2006

Yeo Heng Hau	Deputy Undersecretary	Economic and International Division
Chua Tong Ka	Head, Fiscal Section	Economic and International Division
Nik Mohd. Shariffudin Nik Hassan		Economic and International Division
K. Givananadam	Deputy Director	Budget Management Division
S. Kumaran	Deputy Undersecretary	Financial Management Advisory Division
Nurdita Fazlinda		MoF (Inc) and Privatisation Division
Zahara Mhd. Salleh		MoF (Inc) and Privatisation Division
Yap Soo Har	Deputy Undersecretary	Tax Analysis Division
Mohd. Taufiq Mohd. Ralip		Tax Analysis Division

### Economic Planning Unit, Prime Minister's Department

#### 6 November 2006

Yap Siew Hong	Director	Macroeconomics Section
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### Bank Negara Malaysia

#### 2 November 2006

Dr Sukhdave Singh	Director	Monetary Assessment and Strategy Dept.
Friaziali Ismail	Acting Deputy Director	Monetary Assessment and Strategy Dept.
Loh Jian Wei	Senior Executive	Monetary Assessment and Strategy Dept.
Low Thiam Huat	Manager	Corporate Communications Dept.

## ADDITIONAL INTERVIEWS

#### 1 November 2006

Jeffrey Hurst	Executive Director	American Malaysian Chamber of Commerce
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#### 2 November 2006

Azidin Wan Abd. Kadir	Research Fellow	Malaysian Institute of Economic Research
Gordon B. Reid	Director for Trade & Investment	British High Commission

**6 November 2006**

Datuk Dr Paddy Bowie  
Jason Leong

Managing Director  
Senior Consultant

Paddy Schubert Sdn. Bhd.  
Paddy Schubert Sdn. Bhd.

**7 November 2006**

Dr Muthi Samudran

Associate Professor

School of Business, Monash University

Richard Yeoh

Executive Director

Transparency International Malaysia

**8 November 2006**

P. Ramakrishnan  
Andrew Wong  
Anil Noel Netto  
Mustafa K. Anuar

President  
ExCo member  
ExCo member  
Asst. Secretary

Aliran Kesedaran Negara  
Aliran Kesedaran Negara  
Aliran Kesedaran Negara  
Aliran Kesedaran Negara

## NOTES

<sup>1</sup> See the Malaysian constitution (non-official translation) at:

[www.helpinelaw.com/law/constitution/malaysia/malaysia01.php](http://www.helpinelaw.com/law/constitution/malaysia/malaysia01.php)

<sup>2</sup> NFPEs are defined as ‘large’ if their annual sales exceed 100 million ringgits and government or a public sector agency controls more than 50% of total equity. The accounts of NFPEs financial position for fiscal years 2004 to 2006 include 30 NFPEs. See *Economic Report 2006/2007*, Statistical Table 4.13, p. xxxiv, also available at:

[www.treasury.gov.my/view.php?dbIndex=0&website\\_id=1&id=1417](http://www.treasury.gov.my/view.php?dbIndex=0&website_id=1&id=1417).

<sup>3</sup> Interviews in Malaysia, 21-23 October 2003.

<sup>4</sup> Interviews in Malaysia, 7-10 November 2005.

<sup>5</sup> See Expenditure Budget Formulation Process: [www.treasury.gov.my/index.php?ch=12&pg=32&ac=713&lang=eng](http://www.treasury.gov.my/index.php?ch=12&pg=32&ac=713&lang=eng)

<sup>6</sup> Interviews in Malaysia, 1-8 November 2006.

<sup>7</sup> Interviews in Malaysia, 27 September – 1 October 2004. See IMF Public Information Notice No. 04/27 (24 March 2004), ‘IMF Concludes 2003 Article IV Consultation with Malaysia’ at:

[www.imf.org/external/np/sec/pn/2004/pn0427.htm](http://www.imf.org/external/np/sec/pn/2004/pn0427.htm)

<sup>8</sup> Bank Negara Malaysia, *Annual Report 2005*, pp. 174 – 187. Also available at:

<http://www.bnm.gov.my/index.php?ch=109&pg=333&ac=31&yr=2005>

<sup>9</sup> In 2006, development expenditure by NFPEs was 48.7 billion ringgits, compared with overall NFPE expenditure of 204.1 billion ringgits. See *Economic Report 2006/2007*, pp. 93 - 4, and Statistical Table 4.13, p. xxxix, also at:

<http://www.treasury.gov.my/index.php?ch=22&pg=165&ac=1678&lang=eng>

<sup>10</sup> PNB operates a fund which financially assists the schooling of poor *bumiputera* individuals. See PNB annual reports at: [www.pnb.com.my/about/about\\_us\\_report.cfm?cat=1](http://www.pnb.com.my/about/about_us_report.cfm?cat=1)

<sup>11</sup> Nor Mahomed Yakcop, in ‘Malaysia Inc. two way street’, *The Star*, 12 June 2004, StarBiz p. 4.

<sup>12</sup> See ‘Statement of Memorandum of Investments as at 31 December 2004’, in Accountant General, *Federal Public Accounts 2004* (Ministry of Finance: 2005).

<sup>13</sup> ‘Glossary of terms and definitions,’ in Putrajaya Committee on GLC High Performance, *Catalysing GLC Transformation to Advance Malaysia’s Development: Summary of Transformation Manual*, March 2006, p. 38; also available at [www.pcg.gov.my/trans\\_manual.asp](http://www.pcg.gov.my/trans_manual.asp).

<sup>14</sup> ‘Remake for M’sia Inc’, *The Star*, 15 May 2004, pp. 1-2.

<sup>15</sup> Putrajaya Committee on GLC High Performance, ‘About Us’ (Website:

[www.pcg.gov.my/about\\_us\\_overview.asp](http://www.pcg.gov.my/about_us_overview.asp))

<sup>16</sup> *Catalysing GLC Transformation to Advance Malaysia’s Development: Summary of Transformation Manual*, March 2006.

<sup>17</sup> *Catalysing GLC Transformation to Advance Malaysia’s Development: Summary of Transformation Manual*, March 2006, pp. 39-42.

<sup>18</sup> A schematic of Khazanah’s holdings at the end of October 2006, showing the percentage held in each company (but not the market value or number of shares) is available at:

<http://www.khazanah.com.my/docs/holdingsStructure.pdf>.

<sup>19</sup> ‘PAC: Check on investments,’ *The Sunday Star*, 12 November 2006, p. 17.

<sup>20</sup> Enhancing Board Effectiveness (*Green Book*); Strengthening Directors Capabilities; Enhancing GLIC M&M Functions; Improving Regulatory Environment; Achieving Value through Social Responsibility (*Silver Book*); Reviewing and Revamping Procurement Practices (*Red Book*); Optimising Capital Management Practices (*Purple Book*); Strengthening Talent Management Practices (*Orange Book*); Intensifying Performance Management Practices (*Blue Book v.2*); and Enhancing Operational Efficiency and Effectiveness.

<sup>21</sup> Transformation Management Office (TMO), ‘Media Statement’ (Kuala Lumpur, 26 April, 2006). See [www.khazanah.com.my/docs/MediaStatement\\_PCGPressRelease\\_26Apr06\\_FINAL.pdf](http://www.khazanah.com.my/docs/MediaStatement_PCGPressRelease_26Apr06_FINAL.pdf).

<sup>22</sup> For information on the three other initiatives, see [www.khazanah.com.my/docs/PCG-Sept%2025%20Press%20Release-FINAL-Sept%2025.pdf](http://www.khazanah.com.my/docs/PCG-Sept%2025%20Press%20Release-FINAL-Sept%2025.pdf).

<sup>23</sup> See [www.pcg.gov.my/about\\_us\\_background.asp](http://www.pcg.gov.my/about_us_background.asp).

<sup>24</sup> Interviews in Malaysia, 7-10 November 2005.

<sup>25</sup> See P. Gunasegaram in *The Edge Malaysia*, 27 March 2006, p. 54; and Doreen Long in *The Edge Malaysia*, 7 November 2005.

<sup>26</sup> *The 2007 Budget*, Putrajaya: Ministry of Finance, 2006, p. 10.

<sup>27</sup> *The 2007 Budget*, p.28. ‘RM20b boost for Iskandar,’ *New Straits Times*, 5 November 2006, p. 8.



- <sup>62</sup> See [www.epu.jpm.my/New%20Folder/development%20plan/midterm-RM8.htm](http://www.epu.jpm.my/New%20Folder/development%20plan/midterm-RM8.htm)
- <sup>63</sup> See for example, *The 2007 Budget* at: [www.treasury.gov.my/index.php?ch=12&pg=149&ac=1383&lang=eng](http://www.treasury.gov.my/index.php?ch=12&pg=149&ac=1383&lang=eng)
- <sup>64</sup> Interviews in Malaysia 27 September – 1 October 2004.
- <sup>65</sup> *Economic Report 2006/2007*, pp. 14 – 25.
- <sup>66</sup> Interviews in Malaysia, 1-8 November 2006.
- <sup>67</sup> *Economic Report 2006/2007*, pp. 90-7,
- <sup>68</sup> *Economic Report 2006/2007*, p. 83 (see [www.treasury.gov.my/view.php?dbIndex=0&website\\_id=1&id=1433](http://www.treasury.gov.my/view.php?dbIndex=0&website_id=1&id=1433)). See also 'IMF Executive Board Concludes Article IV Consultation with Malaysia', 20 March 2006 ([www.imf.org/external/np/sec/pn/2006/pn0630.htm](http://www.imf.org/external/np/sec/pn/2006/pn0630.htm)).
- <sup>69</sup> *The 2007 Budget*, p. 7, forecasts petroleum-related revenue of 53.7 billion ringgits, nearly 40% of total expected revenue.
- <sup>70</sup> Interviews in Malaysia, 1-8 November 2006.
- <sup>71</sup> *Economic Report 2006/2007*, pp. 3, 83-4.
- <sup>72</sup> *Ninth Malaysia Plan 2006-2010*, p. 11.
- <sup>73</sup> 'IMF Executive Board Concludes Article IV Consultation with Malaysia,' 20 March 2006 ([www.imf.org/external/np/sec/pn/2006/pn0630.htm](http://www.imf.org/external/np/sec/pn/2006/pn0630.htm)).
- <sup>74</sup> *Economic Report 2006/2007*, pp. 90-95, and xxxiii - xxxv.
- <sup>75</sup> *Economic Report 2006/2007*, pp. 89 - 90,
- <sup>76</sup> *Economic Report 2006/2007*, p. 95.
- <sup>77</sup> See information on GST at: [www.neac.gov.my/index.php?ch=62&pg=142](http://www.neac.gov.my/index.php?ch=62&pg=142)
- <sup>78</sup> Interviews in Malaysia, 1-8 November 2006.
- <sup>79</sup> 'G2: Statement of Memorandum Account of Guarantees, as at 31 December 2005', in Accountant General of Malaysia, *Federal Public Accounts 2005*, p. 496.
- <sup>80</sup> Interviews in Malaysia, 27 September – 1 October 2004. See also Table 17 - Malaysia: Outstanding Public Sector Debt 1999–2004 in 'Malaysia: Statistical Appendix', March 2005, p. 20 at: [www.imf.org/external/pubs/ft/scr/2005/cr05102.pdf](http://www.imf.org/external/pubs/ft/scr/2005/cr05102.pdf)
- <sup>81</sup> See [www.bnm.gov.my/index.php?ch=12&pg=293](http://www.bnm.gov.my/index.php?ch=12&pg=293)
- <sup>82</sup> Interviews in Malaysia, 7-10 November 2005.
- <sup>83</sup> See for example 'Accounting code for Financial Year 2006' (in Bahasa Malaysia only) at: [www.anm.gov.my/kod%20ak%20thn%20kewangan%202006.pdf](http://www.anm.gov.my/kod%20ak%20thn%20kewangan%202006.pdf)
- <sup>84</sup> See *Buku Panduan Perolehan Kerajaan* (Ministry of Finance, 1997).
- <sup>85</sup> See [www.treasury.gov.my/index.php?ch=63&lang=eng](http://www.treasury.gov.my/index.php?ch=63&lang=eng)
- <sup>86</sup> For an estimate that government procurement was equal to 20% of GDP in 2004, see AMCham Malaysia and U.S. Chamber of Commerce, *Public Submission for the proposed U.S.-Malaysia Free Trade Agreement (USMFTA)*, 19 May 2006, p. 54. Analysis of GDP by aggregate demand suggests that government consumption in each of 2005 and 2006 is equal to 14.7% of GDP while private consumption in those years was equal to 50.0% and 50.7% of GDP respectively: see *Economic Report 2006/2007*, p. 29.
- <sup>87</sup> Putrajaya Committee on GLC High Performance, *The Red Book: Procurement Guidelines & Best Practices*, Kuala Lumpur: PCG, April 2006, p. 3. GDP in 2004, in producers' prices, was 450 billion ringgits.
- <sup>88</sup> Interviews in Malaysia 27 September – 1 October 2004; 'D-G: Govt to introduce e-procurement', *The Star*, 33 December 2003, p. 18. See the e-Procurement portal at: <http://home.eperolehan.com.my/bm/default.aspx>. The procurement process is described, in English, at the APEC Government Procurement Experts' Group website at: [www.apec.org/content/apec/apec\\_groups/committees/committee\\_on\\_trade/government\\_procurement/resources/malaysia.html](http://www.apec.org/content/apec/apec_groups/committees/committee_on_trade/government_procurement/resources/malaysia.html)
- <sup>89</sup> Ninth Malaysia Plan, Putrajaya: Economic Planning Unit, 2006, p. 500.
- <sup>90</sup> See 'Fed agencies run business on line' at <http://home.eperolehan.com.my/en/press/showpage.aspx?file=20060825.htm>; and 'Govt departments in Sabah use ePerolehan' at [http://home.eperolehan.com.my/en/press/showpage.aspx?file=20060519\\_BHeP.htm](http://home.eperolehan.com.my/en/press/showpage.aspx?file=20060519_BHeP.htm).
- <sup>91</sup> See [www.tender2u.com/](http://www.tender2u.com/)
- <sup>92</sup> Interviews in Malaysia, 27 September – 1 October 2004. See also 'Is open tender being practised?', *The Edge Malaysia*, 18 October 2004, p. 86; P. Gunasegaram, 'What happened to open tenders and bids?', *The Edge Malaysia*, 26 April 2004, pp. 49, 52.
- <sup>93</sup> Interviews in Malaysia, 1-8 November 2006.
- <sup>94</sup> *The Red Book: Procurement Guidelines & Best Practices*, p. v.
- <sup>95</sup> Putrajaya Committee for GLC High Performance, *Red Book Terms of Reference*, Section III.6.1 (unpaginated).

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<sup>96</sup> See the Public Service Department at: [www.jpa.gov.my](http://www.jpa.gov.my); the Public Service Commission at: [www.spa.gov.my](http://www.spa.gov.my); and job vacancies advertised on the Malaysia Civil Service Link of the Malaysian Administration Modernisation and Management Unit at: [www.mampu.gov.my/](http://www.mampu.gov.my/)

<sup>97</sup> See the flow diagram at: [www.anm.gov.my/Eng\\_Accounting/indexpublicacc.html](http://www.anm.gov.my/Eng_Accounting/indexpublicacc.html)

<sup>98</sup> Interviews in Malaysia, 7-10 November 2005.

<sup>99</sup> See the flow diagram at: [www.anm.gov.my/Eng\\_Accounting/indexpublicacc.html](http://www.anm.gov.my/Eng_Accounting/indexpublicacc.html)

<sup>100</sup> See the Enabling Legislation, including Articles 105-107 of the Constitution and the Audit Act (1957) on the website of the National Audit Department at: [www.audit.gov.my/](http://www.audit.gov.my/)

<sup>101</sup> The latest Auditor General's Report, for fiscal year, 2004 is available at:

[www.audit.gov.my/EnglishBBPReport04.pdf](http://www.audit.gov.my/EnglishBBPReport04.pdf). For more information, see [www.audit.gov.my/ataglance.pdf](http://www.audit.gov.my/ataglance.pdf)

<sup>102</sup> Interviews in Malaysia, 7-10 November 2005.

<sup>103</sup> Interviews in Malaysia, 1-8 November 2006.

<sup>104</sup> Interviews in Malaysia, 1-8 November 2006.

<sup>105</sup> 'Millions wasted', *The Edge Malaysia*, 6 November 2006, p. 7.

<sup>106</sup> [www.statistics.gov.my](http://www.statistics.gov.my)

<sup>107</sup> See the Statistics Act 1965 (revised 1989) at:

[www.statistics.gov.my/english/frameset\\_organisation.php?file=statistic\\_act](http://www.statistics.gov.my/english/frameset_organisation.php?file=statistic_act)