

**Submission to Ministry of Finance for the 2015 Budget Consultation by the Asian Strategy & Leadership Institute (ASLI) and the Centre for Public Policy Studies (CPPS) on 26 May 2014**

**A) Subsidy Rationalisation**

1. In general, subsidies that are not well targeted will encourage overconsumption. For fiscal year 2013-2014, the Government increased absolute spending on subsidies to RM46.7 billion or 4.7% of GDP (2012: RM44.1 billion; 4.7%), despite the resumption in fuel and sugar subsidy rationalisation. By artificially keeping the prices of subsidised products such as petroleum low, consumers at large have no incentives to adjust their spending behaviour, either through cutting down on consumption or searching for alternatives. Worse still, the subsidy rationalisation may in effect harm the poor disproportionately more than those in high-income group, and overconsumption by this group continues to drain public finance due to increased spending on subsidy.
2. While the Government's direct cash assistance via BR1M is financed through part of the savings from subsidy rationalisation, **the implementation of such exercise is less than perfectly targeted**, and it does not seem to reduce the burden of the bottom 40% household who finds petrol consumption to be unaffordable. Instead, the Government should consider assisting this income group by placing a subsidy quota on the litre of petroleum purchased.
3. If the litre of petroleum purchased exceeds the subsidy quota, the consumer will have to pay a full market price. **Subsidy quota will encourage more calculated spending behaviour on petroleum while also achieving the need to better target the recipients for subsidy assistance.**
4. To ensure no duplication in providing assistance and no deserving assistance recipient is left out, the Government should consider utilising MyKad as the sole tool for identification and subsidy payment. A comprehensive database system must be established with various agencies and petrol pump to carry out this exercise.

## **B) Implementation of GST**

5. In spite of publicity campaigns through the media to disseminate information on the workings and benefits of Goods and Services Tax (GST), especially on the list of zero-rated and exempt supplies, **the people by and large has still limited understanding of GST with many rightly questioning the impact on general prices.** Given that GST is set to be effective from 1 April 2015 at 6%, more needs to be done in raising consumer awareness.
6. One particular area of concern is tax salience or visibility and how it affects consumer behavioural responses. Consumers may have the misperception that all goods and services will be burdened with additional taxation, and in certain cases, they will not be able to identify and report price manipulation by irresponsible businesses. As such, **the Government should consider enforcing businesses to display price tags that state if a given product is zero-rated or exempted from GST.** Price tags must be clear in informing consumers of the amount of GST that is incurred on a given product or service.

## **C) Natural Resource Management**

7. Petroleum income tax (PITA), which constitutes 13% of public revenue, is estimated to decline in coming months due to ongoing uncertainties in global environment. Besides, future stream of income will also shrink as the country's oil reservoir dries up. As precautionary method, **the Government should consider setting up a special fund, in addition to National Trust Fund, to invest in the proceeds from oil as means to benefit future generation.** The investment should be directed to insurance, healthcare, and education so that the future citizen of Malaysia can be better insulated from the volatility in both domestic and global economy.
8. The disruption to daily activities caused by water rationing is puzzling given the abundant supply of rainwater in this blessed country. Rapid urbanisation may intensify the incidence of water shortage while the catchment areas for rainwater diminishes as lands are cleared for property development. Therefore, **the Government should consider providing tax incentives to install rainwater harvesting system at residential and commercial properties.** In fact, all government buildings should be mandated to install such system as preventive measure against unpredictable changes in weather. This system allows households to better prepare for water shortage.

## D) Improving Public Sector Service

9. The delivery of public sector service matters to the general perception of the Government's performance. Service quality of front-line employees (FLE) should be enhanced through a direct and immediate feedback mechanism with the people. Furthermore, the Government should institutionalise the right incentives to perform by linking FLE's pay to customer satisfaction.
10. The Government should consider installing electronic survey machines that feed live updates on the level of customer satisfaction each time a transaction is completed between FLE and the customer. Moreover, a given customer should be able to also provide feedback via mobile applications – "Apps" or SMS, and all information should be kept anonymous. This mechanism allows for more complete dataset that assists in research for future training and improvement.
11. The ubiquity of mobile 'Apps' usage provides new avenue for the Government to receive feedback and complaints. **With a single touch on mobile 'Apps', any ordinary citizen can make real-time report or updates concerning public sector delivery** such as burst water mains or removal of hazardous objects. This bottom-up approach empowers the people to participate in nation-building and it will help the civil service in better responding to issues concerning the people. More FLE can be put on the street by cutting down the number of back-office employees and red-tape, which will increase efficiency in service coordination and delivery.
12. The introduction of Outcome-Based Budgeting (OBB) in Budget 2014 was timely given the changing landscape of the Malaysian economy where public spending is directed to areas where the result is not readily quantifiable. This reality requires increased discretionary on the part of public officials to allocate resources in programmes that are based on outcomes. In this respect, **the Government should assist public officials in making budgetary decisions through a real-time data management system where all payments within a Ministry are registered and tracked in an internet portal.** So, the Minister or senior managers should be able to restrict spending or remove certain programmes that are achieving results as intended. Simultaneously, their reward and prospect for promotion should be tied to their ability to reduce leakages.

## **E) Social and Community**

13. Continuous learning assists in increasing worker's productivity. The Government should consider a cost-sharing model with local communities in offering short courses to working adults, especially employees from small-and-medium enterprises (SMEs), in addressing a list of well-targeted issues concerning the quality of workers in Malaysia. Tax incentives should be extended to individuals or companies that send their workers to such workshops.
14. Social entrepreneurship must be encouraged to assist in creating an economically sustainable solution towards community development. The Government should consider expanding the role of 1M4U as a social entrepreneurship platform to facilitate and provide support for concerned citizens in pursuing social entrepreneurship. Instead of funding these potential social entrepreneurs, the Government should play the role of a "match-maker" that connects the people to relevant authorities in the process of organising a community development project.

## **F) The Poor and Marginalised**

15. One of the government's current approaches to addressing the needs of the poor and marginalised is through BR1M. Though there is definitely a need to address the plight of the poor and their concerns in relation to a rise in the cost of living, these payments need to be better targeted. While it may be considered paternalistic by some quarters, these payments should instead be made through a voucher system that can be redeemed for essential household goods (fuel, oil, food, healthcare costs, etc.).
16. With the first opened in 2011, there are now 125 Kedai Rakyat 1Malaysia (KR1M) stores. This initiative should be continued and expanded as it helps to reign in the rise in cost of household items. This KR1M and BR1M initiatives could, in some cases, be combined so recipients can redeem good from particular outlets. This would streamline both programmes – saving money, while also delivering on a vital public service aimed at the poor.
17. To further streamline payments for the low-income groups in society, these initiatives should also be combined with the 1Malaysia Welfare Programme (KAR1SMA). Currently run by the Ministry of Women, Family and Community Development, this could be incorporated into existing welfare programmes to better utilise resources.

18. **An audit commission should be set up to look into the sustainability of these welfare cash-payments and their sustainability in the medium to long-term with reference to the current budget position.** One of the terms of reference for this body could be to look at better ways to identify eligibility for payments – including means testing, so as only those in desperate need receive these ongoing payments.
19. The new minimum wage policy mandates that employers will pay a minimum of RM900 per month in Peninsular Malaysia and RM800 per month in Sabah, Sarawak and Labuan. While this policy is needed to address cost of living pressures for the lowest paid workers in Malaysia, there also needs to be focus on how this will affect the cost of doing business for employers. There are tax deductions in place for employers, however, further deductions should be made available to promote further investment and continue to make Malaysia an attractive destination for Foreign Direct Investment (FDI).
20. One of the key problems that keep those on low-incomes from moving up the social ladder is lack of skills employers need for their businesses. While perhaps the most obvious is a lack of command of English proficiency and a mismatch of skills acquired during one's study, fluency in new technologies – including the use of computers and the Internet are also of concern. The government should work with companies – both private and public, through Corporate Social Responsibility (CSR) schemes to better train employees and equip them with the skills needed in modern workplaces – especially those in clerical administrative positions.

## **G) Participation of Rural Community in the Economy**

21. The government's Akhiri Zaman Miskin (1AZAM) programme provides business aid to help poor communities and individuals start small enterprises. From the programme's initiation, it has become clear that many of those who are benefiting from it are women (as much as 64%). This is important, as **greater participation in the workforce from women will have a positive effect on the overall economy.** An expansion of this programme, as well as other micro-credit endeavours should be explored to foster greater entrepreneurship and participation in the formal economy.
22. The Rural Transformation Centre's (RTC) that have been set up in areas like Perak, Malacca, and Pahang should be extended countrywide. They provide integrated services in agricultural processing, the training of rural populations, university cooperation and rural population financial services, among others. The government should continue investing in rural infrastructure to address the disparity that exists between those living in urban and those living in rural areas.

23. This should be in addition to, and build upon the rural infrastructure allocation earmarked in the 2013 budget. The extra funding should be used in building roads, water and electricity supply infrastructure, and low cost housing projects in rural areas. Without proper investment in jobs and housing in rural areas, people will continue to travel to urban centres to find work. If there is not enough adequate work for these internal migrants, the social and economic problems will compile.

#### **H) Enhancing the Role of SMEs as New Creative Growth Drivers in Services and Manufacturing**

24. There is a need to raise awareness raising of the potential of SMEs participation in global value chains. This can be done by facilitating SME consortia for joint marketing or promotion schemes for potential suppliers.
25. Policies aimed at improving SMEs accounts receivables and facilitating SMEs financing can help small contractors overcome liquidity problems
26. **The promotion of technological upgrading is critical in order to encourage SMEs to capture more value added from participation in global value chains.** Policies in this area should aim to support training and capacity building via skill development programmes as well as promoting partnership between SMEs and organisations in and abroad.
27. FDI promotion policies may facilitate the integration of firms in global supply chains. Some policies can explicitly be designed to attract Multi-National Corporations (MNCs) that would promote technology and knowledge transfer to local suppliers and contractors.

#### **I) Enhancing the Role of Higher Education in Skills Acquisition**

28. The wide gap between classroom and industry should be bridged by skills acquisition policy in every aspect. The ratio of theoretical to practical should be 30:70 and this may involve additional investment on extra-curricular activities.
29. Educational programs at the secondary and post-secondary levels need to identify the knowledge and skills that will be needed by the future workforce to successfully work with and maintain the advanced technologies and develop appropriate delivery systems for the teaching of the new content. Practical training should be encouraged to allow for a seamless integration for graduates into the workforce.

## **J) Enhance Support for Inclusive Innovation**

30. For innovative activities to flourish, the Government should create a policy environment that fosters inclusive innovation. The Government should consider providing incentives to promote creation, adoption, commercialisation and use of inclusive innovation technologies. These incentives should be extended to the public and private sector as means to generate and adopt inclusive innovation.

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