

Merakatkan ekonomi Kebangkitan Sabah

沙巴 振兴
巴 还富于民



People's
Economy,
Reinstating
Sabah's Glory.



Belanjawan Pakatan Rakyat Sabah 2013
2013年沙巴民联预算案
Budget Pakatan Rakyat Sabah 2013

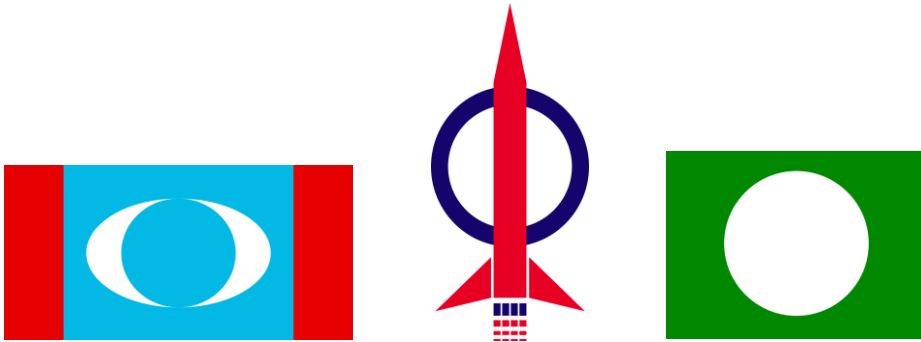
***Merakyatkan Ekonomi, Kebangkitan Sabah
People's Economy, Reinstating Sabah's Glory***

振兴沙巴，还富于民

Sabah Alternative Budget 2013

by

Pakatan Rakyat



Foreword

Our state of Sabah, the land below the wind, overflows with riches and resources far beyond our wildest dreams. From our beautiful coastlines to our mountain ranges, from our fertile soil to our virgin rainforests, from our growing oil and gas discoveries to our palm oil plantations, we are indeed one of the most blessed places not just in Malaysia but in the world.

Sadly, these bountiful resources have been squandered and wasted through corruption and cronyism of the highest degree. Sabah has the dubious distinction of being the state with the highest poverty rate and the highest level of income inequality in Malaysia. While Sabah UMNO can rake in RM40 million cash from one businessman alone¹, while 500,000 Sabahans remain below the poverty line.²

This Pakatan Rakyat Sabah (thereafter named PR Sabah) Alternative Budget 2013 outlines how PR Sabah will allocate resources to reinvigorate our beloved Sabah state. These measures include infrastructure that facilitates sustainable growth and higher incomes, and policies to lift the marginalized out of poverty while taking care of their immediate needs, with the aim that ultimately all Sabahans have an equitable share of our state's wealth.

Very importantly, this Budget clearly states how PR Sabah will responsibly spend the additional monies Sabah will receive from the increase in Petroleum Royalties to 20% from 5%, should PR be voted by the people into federal and state government.

This vision can only materialize if PR is elected to power at both levels of government. The present BN federal government has and will continue to deny Sabah, Sarawak, Terengganu and Kelantan, their fair share of the oil royalty. In any case, any additional money allocated to the same BN state government in Sabah will be lost to the ingrained corruption and cronyism which will undoubtedly increase exponentially.

Only under both PR federal and state governments can this PR Sabah's Budget, with its fundamental philosophy of being for the people rather than cronies and mega-projects, be materialized. The time for change is upon us. Let us take hold of this opportunity and fill Sabah's sails with the winds of change which will carry the BN away to the ranks of the opposition and carry the 'Land Below The Wind' to a new and brighter future that will reinstate its position as one of the richest and most developed states in Malaysia, where prosperity and progress will be enjoyed by all and not just a select few.

It is the set of the sails, not the direction of the wind that determines which way we will go³.

Ubah Sekarang, Selamatkan Sabah, Selamatkan Malaysia.

Ahmad Thamrin Jaini
Pengerusi MPN Sabah PKR

YB Jimmy Wong Sze Phin
DAP Sabah Chairman

Mohd Aminudin Aling
Pesuruhjaya PAS Sabah

Pakatan Rakyat Sabah Budget 2013 Executive Summary

The Pakatan Rakyat Sabah Alternative Budget 2013 entitled '*Merakyatkan Ekonomi, Kebangkitan Sabah*' is the first Sabah state budget proposed by the opposition coalition. It outlines a detailed strategy on how PR Sabah will allocate resources in the state such that Sabah's wealth is more equitably distributed, its growth prospect reinvigorated and its marginalized lifted out of poverty. It shows the fundamental differences between the governing and spending philosophy of PR Sabah as compared to the BN.

This state alternative budget comprises of five thrust - Making our Land Work, Raising Disposable Incomes, Social Outreach for All, Enabling and Empowering Local Communities and Improving Connectivity.

These are the highlights in the alternative budget:

THRUST 1 - Making our Land Work

- 1.1 Setting up a Sabah Land Tribunal as a permanent commission of enquiry to resolve NCR dispute with an annual allocation **RM50 million**.
- 1.2 RM2 billion to be spent over the next five years in order to achieve the twin goals of 0 idle land and 0 hardcore poverty.
- 1.3 Encourage integrated farming approach based on food as well as cash crops and being supported by downstream and related cottage industries. **RM350 million** to develop the idle land agriculturally and its post harvest facilities.
- 1.4 Review FELDA agreement based on its original objective – as settlement scheme.
- 1.5 Introduce nominal premium for the extension of 99 year leaseholds for land owner.

THRUST 2 - Raising Disposable Income Sustainably

- 2.1 Allocate **RM648 million** to assist employers in increasing employee's wages gradually to meet monthly minimum wage per worker, RM1,100 in 5 years.
- 2.2 Abolish the unpopular cabotage policy as well as other local monopolies in sugar, sand, rubber and cement production which are partly responsible for artificially increasing the cost of goods and services in our state.
- 2.3 Establish Oil & Gas Sabah (OGS) as a 2nd tier oil and gas company with a capital injection of RM1 billion in 5 years, with **RM200 million** allocation for 1st year in power.
- 2.4 Allocate **RM100 million** to establish Sabah Agro Industry Board to mainly promote downstream activities in developing alternative uses for biomass.

- 2.5 Improving irrigation system to enhance agricultural output with **RM70 million** allocations.
- 2.6 To assist and promote SMEs with allocating **RM50 million** for SME development fund.
- 2.7 Improving forest management with allocation **RM25 million**.
- 2.8 **RM200 million** as initial allocation to build 50,000 units of affordable public housing costing approximately RM50,000 each.

THRUST 3 – Social Outreach for ALL

- 3.1 **RM6 million** to set up *Tabung Anak Sabah* - RM200 for each new born child, benefit 30,000 children.
- 3.2 Introduce *Skim Mesra Warga Emas*, RM2500 will be given to the families of these senior citizens upon their passing to help pay for the funeral costs **RM12 million**. In addition, every senior citizen above the age of 60 will be given RM200 as a sign of appreciation, benefit 100,000 senior citizens, costing **RM20 million**.
- 3.3 Under *Skim Bantuan Perubatan*, **RM40 million** set aside for create Treatment Transit Hostels to help alleviate the financial burden of those in the rural area seeking tertiary health care treatment.
- 3.4 *Free water* for the first 20 cubic meters to the approximately 280,000 households with personalized water meter pipes in Sabah with costing **RM60.5 million** per year.
- 3.5 Under *Skim Bantuan Makanan*, all households below the poverty line will be given 1 free gas cylinder for each family every month which cost **RM25.2 million**, and 2 bags of 10kg rice which cost approximately **RM30.3 million**, expected to benefit 70,000 households.
- 3.6 Under *Skim Galakan Pendidikan*, RM240 allocated for children in rural areas as a practical strategy of decreasing school drop-out rates. It costs the state government **RM43.2 million** and benefit approximately 180,000 households.
- 3.7 **RM200 million** to establish a *Tabung Warisan Sabah* for poverty eradication programs.

THRUST 4 - Enabling & Empowering Women & Local Communities.

- 4.1 **RM50 million** allocated for vernacular, religious, government aided and independent schools.
- 4.2 Under *Skim Graduan Anak Sabah*, RM2,000 will be given to each student pursuing tertiary studies for households earning less than RM2,000 a month. This initiative is expected to cost **RM14.4 million** and is expected to benefit approximate 7,200 students.

- 4.3 **RM50 million** to provide scholarships for all those who seek tertiary education in the state. Priority will be given to train doctors and teachers.
- 4.4 Provide **RM150 million** for religious bodies including mosques, churches and temples, including **RM 3 million** Bantuan Haji.
- 4.5 Provide a special allocation for NGOs for community service and social outreach at cost **RM10 million**.
- 4.6 **RM20 million** fund to showcase cultural diversity through innovation and creativity.
- 4.7 **RM40 million** for the purposes of cultural and heritage preservation.
- 4.8 Start up grant of **RM20 million** to set up *Sabah TV* for the purposes of making programs to showcase the cultural heritage and diversity of our state.
- 4.9 Provide an **RM20 million** allocation for the disabled community, senior citizens and single parents.
- 4.10 Every first newlywed will be given RM2,000 as allowance. This initiative is expected to cost **RM21.6 million** and benefit up to 22,000 newlyweds (11,000 pairs).
- 4.11 Set aside **RM50 million** for the local councils for crime fighting activities such as the installation of more CCTVs and also the provision of a local auxiliary police force.
- 4.12 Set aside **RM100 million** for an Environmental Conservation Fund to undertake environmental rehabilitation and conservation activities which can enhance the lifestyle of the local communities such as rehabilitation of polluted rivers, improved landscaping for public parks and wetlands restoration.
- 4.13 **RM10 million** to promote eco-tourism activities

THRUST 5 – Improving our Connectivity

- 5.1 Allocate approximately RM5 billion over the next 5 years to build and upgrade in addition to 5,000km of roads over the next five years or 1,000 km per year. **RM600 million** will come from this budget.
- 5.2 RM1.5 billion over the next 5 years to improve port facilities and infrastructure in Kota Kinabalu, Sepanggar, Sandakan and Tawau. An initial sum of **RM300 million** in this budget to kick-start the port infrastructure improvement activities.
- 5.3 **RM100 million** to kick start the expansion of railway network in Sabah involving 50km from Tenom to Keningau.
- 5.4 **RM200 million** for electricity generation projects involving renewable energy, particularly for mini hydro generators and low cost solar panels. An initial **RM100**

million in funding for the Feed in Tariff (FiT) while waiting for the SAIDI levels to drop further and for the 1% tariff to kick in.

- 5.5 **RM200 million** to fund low-cost but effective local water treatment and supply systems.
- 5.6 **RM50 million** for expanding the free WIFI coverage in the state starting with the areas with state owned buildings and open public spaces in the towns and cities.
- 5.7 **RM200 million** to improve public transportation system including introduce a Bus Rapid Transit (BRT) system in Kota Kinabalu.
- 5.8 Provide **RM100 million** as the start up grant to uplift the status of Sabah Air to engage in commercial activities, especially connecting Sabah interior area to main towns.

Conclusion

This is an ambitious budget in that it charts new territory for PR Sabah as well as for the state as a whole as we imagine and plan for how to allocate a significant increase in our budget as a result of the increase in oil royalties from 5% to 20%.

This budget shows that PR in Sabah is more than ready to step up to the plate to govern responsibly and balance the long term development needs of the state with the shorter term social outreach programs that will benefit all Sabahans, especially the marginalized in our community.

The winds of changing are blowing in the land beneath the wind. May this wind blow the corrupt BN government out of the power at the state and federal levels and usher in a new era of a caring, clean and competent PR government.

Ubah sekarang, Selamatkan Sabah, Selamatkan Malaysia.

CONTENTS

1	Sabah – The Sad State We Are In.....	3
2	Overview of Sabah’s Economic Structure and Public Finances	5
3	Increased Expenditure under Pakatan Rakyat	8
3.1	Oil Justice under Pakatan Rakyat	8
3.2	Increased Revenues from Good Governance.....	8
3.3	Repositioning Sabah for Inclusive Growth and Prosperity	10
4	THRUST ONE: Making Our Land Work	11
4.1	Resolving Land Ownership Problems	11
4.2	Developing Land for Agricultural Use	12
4.3	Developing Post-Harvest Facilities.....	13
4.4	Hardcore Rural Poverty Eradicated in 5 Years.....	13
5	THRUST TWO - Raising Disposable Incomes.....	14
5.1	Increasing Minimum Wages Gradually to RM1100 in 5 Years.....	14
5.2	Cutting Monopolies	15
5.3	Economic Diversification and Deepening.....	16
5.4	Beyond Extraction: PR Sabah Will Develop Downstream Oil and Gas Capabilities	16
5.5	Not Just Planters: Developing High-Value Agro-Based Industries	17
5.6	Enhancing Agricultural Output	17
5.7	SME Focused Industrial Development Policy.....	18
5.8	Improving Forest Management.....	19
5.9	Providing Affordable Housing	19
6	THRUST THREE: Social Outreach to All.....	21
6.1	Caring for the Young, the Old and the Ill	21
6.2	Basic Essentials - Food, Fuel, and Education.....	22
6.3	Tabung Warisan Sabah for Poverty Eradication and Social Insurance Programs	24
7	THRUST FOUR: Enabling and Empowering Local Communities	26
7.1	Educating Our Young.....	26
7.2	Helping Religious Organizations and the NGO Community	27
7.3	Cultural and Heritage Preservation and Enrichment.....	27
7.4	Caring for the Disabled Community, Senior Citizens and Single Parents	28
7.5	Promoting the Institute of Marriage	29
7.6	Crime and Safety.....	29
7.7	Environmental Conservation and Rehabilitation	29
8	THRUST FIVE: Improving Connectivity	31
8.1	Building Roads so Sabahans can Build Livelihoods.....	31
8.2	Improving Port Facilities	32
8.3	Railway Extension	32
8.4	Taking Care of the Basic Utilities of Electricity and Water	33
8.5	Free WIFI.....	34
8.6	Urban Public Transportation	34
8.7	Sabah Air.....	34

9	Public Finances: Revenue and Expenditure Estimates	35
9.1	Projected Surplus Budget	35
9.2	Long-Term Structural Adjustments	366

1 Sabah – The Sad State We Are In

Our state of Sabah, known as the land below the wind, is replete with riches and resources far beyond our wildest dreams. From our beautiful coastlines to our mountainous ranges, from our fertile soil to our virgin rainforests, from our growing oil and gas discoveries to our palm oil plantations, we are indeed one of the most blessed places not just in Malaysia but in the region and in the rest of the world as well.

Sadly, much of these resources has been squandered and wasted through corruption and cronyism of the highest degree. And this starts at the very top of the political hierarchy in Sabah. Musa Aman, Sabah's Chief Minister since 2003, is the target of an international criminal investigation involving the authorities in Switzerland and Hong Kong over allegations that as much as US\$90 million from corrupt logging contracts were channeled through various accounts with UBS, a Swiss based bank, in both of these countries. What is even more alarming is that the Malaysian Anti-Corruption Agency (MACC) recently announced that it had cleared Musa Aman of any wrong doing as some of these funds actually belonged to UMNO and not to him personally! While Sabah UMNO can rake in RM40 million cash from one businessman alone⁴, many Sabahans remain mired in poverty.

Sabah's per capita GDP ratio to that of the country as a whole was 1.19 to 1 in 1970. This means that Sabah was richer than almost all other states in Malaysia more than 40 years ago. This ratio had fallen to 0.77 to 1 in 2010 which means that Sabah is poorer than most other states in Malaysia.

Sabah is the state with the highest poverty rate in Malaysia – at 19.7% - by far, with Perlis coming in second at 6.0%. More than 40% of the country's 228,000 poor households can be found in Sabah. In fact, Sabah's share of the total poor households in the country has increased from 36.7% in 2004 to 43.4% in 2009. Sabah's rural poverty rate is 32.8%, almost at almost four times that of Sarawak, which is at 8.4%. Its hardcore poverty rate of 4.8% is almost five times that of Kelantan, which is at 1.0%. Its hardcore rural poverty rate of 8.5% is more than four times that of Sarawak, which is at 2.0%.

Even though mean household income has increased from RM2,395 in 2004 to RM3,102 in 2009, Sabah's Gini Coefficient, a measure of income inequality, has actually increased from 0.448 in 1999 to 0.453 in 2009. This means that even though incomes in Sabah have increased over time, much of this has gone to the top earners, including many linked to the BN government.

Access to 24 hour electricity and to a clean supply of water still remains out of reach for many a Sabahan especially those in the rural areas. According to statistics from the Government Transformation Program (GTP), as of 2012, only 79% of Sabahans have access to clean treated water (compared to 99% in Peninsular Malaysians) and only 88.7% of Sabahans have 24 hour access to electricity (compared to 99.8% in Peninsular Malaysia).

According to the recently released Preliminary National Education Blueprint 2013 to 2025, Sabah had the worst performance in terms of average UPSR and SPM scores among all the states. The average Grade Point Average scores for the UPSR and SPM examinations in Sabah were 54.3% and 38.8% respectively compared to 81.3% and 58.0% for Wilayah Persekutuan Putrajaya, the highest performance state.⁵

In 2009, the number of doctors per 10,000 stood at 5.29 for Malaysia as a whole compared to just 1.16 for Sabah. The number of hospital beds for 10000 stood at 17 for Malaysia as a whole compared to just 9.9 for Sabah.⁶

Sabah continues to rank at the bottom among all states in various economic and social indicators (See Table 1). This is despite the RM13.2 billion and RM16.9 billion allocated to Sabah's development expenditure in the 8th and 9th Malaysian Plans.

Table 1: Comparison of Key Statistics: Peninsular Malaysia vs Sabah

Statistic	Year	Peninsular Malaysia	Sabah
Per Capita GDP Ratio (Sabah : Malaysia)	1970	1.19:1 ⁽¹⁾	
Per Capita GDP Ratio (Sabah : Malaysia)	2010	0.77:1 ⁽¹⁾	
Overall Poverty	2009	3.8%	19.7%
Rural Poverty	2009	8.5%	32.8%
Hardcore Poverty	2009	0.7%	4.8%
Hardcore Rural Poverty	2009	1.8%	8.5%
No of Poor Households	2009	102.2k	99.1k
Gini Coefficient	1999	0.443	0.448
Gini Coefficient	2009	0.441	0.453
Access to 24-hour electricity	2012	99.8% ⁽²⁾	88.7%
Access to clean treated water	2012	99% ⁽²⁾	79%
UPSR	2011	81.3% ⁽³⁾	54.3%
SPM	2011	58.0% ⁽³⁾	38.8%
No of Doctors / 10k	2009	5.29	1.16
No of Hospital Beds / 10k	2009	17	9.9

Sources: National Income and Housing Report 2009, 10th Malaysian Plan, Department of Statistics, Government Transformation Program Annual Report

(1) For Malaysia as a whole

(2) For Peninsular Malaysia only

(3) WP Putrajaya

This dire situation will continue as long as the BN / UMNO politicians and their cronies are in power. To put a stop to this, we must change the government, at the state as well as the federal level. The time for change is upon us.

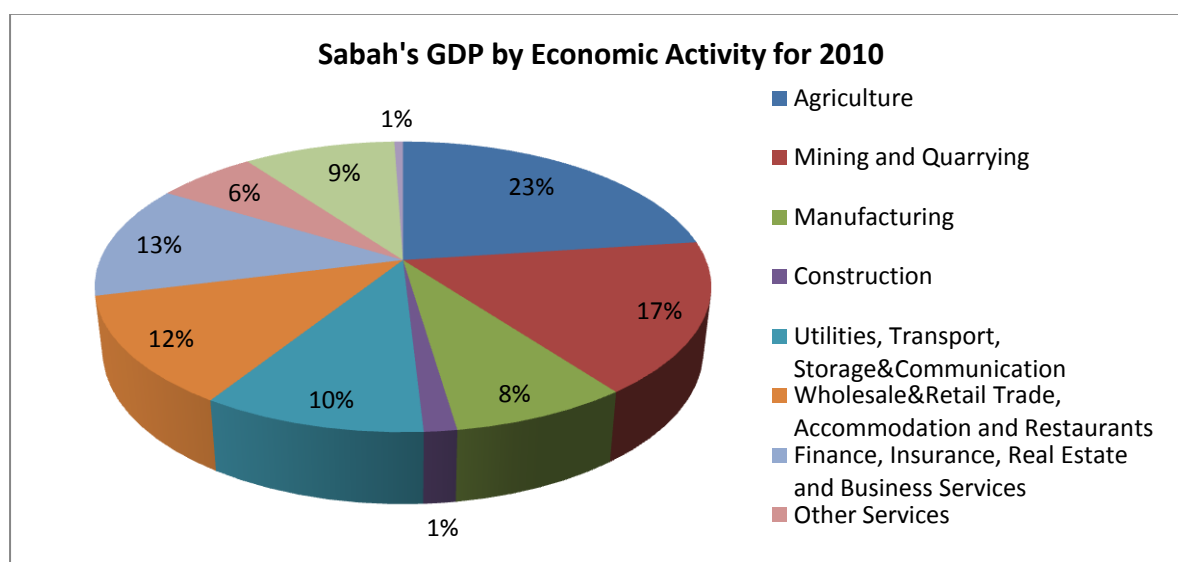
2 Overview of Sabah's Economic Structure and Public Finances

Over the past five decades, the growth of Sabah's economy has relied heavily on exports, especially exports of primary commodities such as agriculture, forestry, and petroleum. Rubber was the primary export commodity in the 1950s. In the 1960s, timber overtook rubber to become the state's main export. By the 1980s, as timber stocks were being depleted, palm oil replaced logs and related timber products to become the major source of export growth in the state. By the early 2000s, Sabah had become the largest palm oil producing state in Malaysia. The agricultural sector which includes rubber, palm oil and logging, comprised 23% of the economy in 2010 (Figure 1 below).

During the same time, increasing oil and gas discoveries were being made in Sabah. The oil and gas sector started to contribute a greater proportion of the state's economy and more importantly, to the state revenue in the form of excise duties, until it was abolished in 2001, and oil royalties of 5%. Mining and quarrying made up 17% of the economy in 2010.

Perhaps the largest growth has come in the services sector which comprises 50% of the state's economy in 2010. Much of this has come in the tourism sector with the anticipated arrival of almost 3 million tourists in 2012.

Figure 1: Breakdown of Sabah's GDP by Economic Activity 2010



Source: Department of Statistics

Sabah's overdependence on natural resource extraction and commodities on the one hand and the services sector, most notably tourism, on the other means that it has a very underdeveloped secondary sector which includes turning raw materials into finished or semi-finished goods. In other words, Sabah has a poorly developed manufacturing sector. Table 2 below shows that Sabah's secondary sector makes up only 9% of economic activity compared to 31% in Peninsular Malaysia and 29% in Sarawak.

Table 2: Sectoral Composition of GDP - Peninsular Malaysia, Sabah and Sarawak (2009)⁷

Region	Primary	Secondary	Tertiary
Peninsular Malaysia	6%	31%	63%
Sabah	41%	9%	49%
Sarawak	34%	29%	37%

Source: Department of Statistics

Sabah's state of public finances tells of two difference stories. On the one hand, Sabah has experienced budgets surpluses over the past six years due to better than anticipated revenue collection, with rising CPO and oil prices. (See Figure 2 below) This surplus has decreased to RM4.02 million in 2011 according to the latest Auditor General report.

Figure 2: Sabah State Finances 2005 to 2010

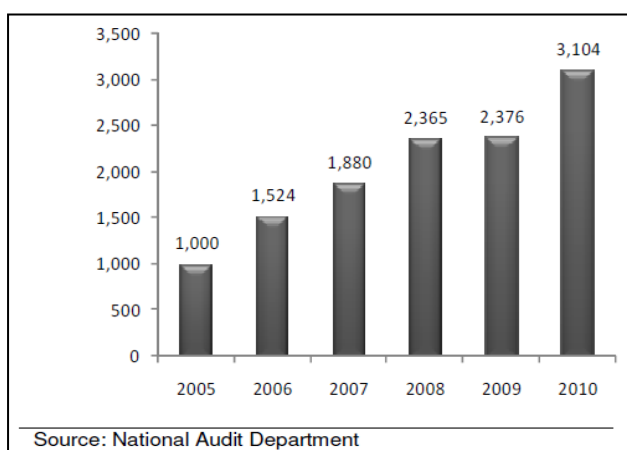
RM Million	2005	2006	2007	2008	2009	2010
Revenue						
-Tax revenue	623.6	691.4	1,091.1	1,371.0	1,003.9	1,223.4
-Non tax revenue	1,021.4	1,334.5	1,411.8	1,651.5	1,753.1	2,085.8
- Non revenue receipts	133.3	235.0	276.2	318.9	292.9	891.9
Sub-total 1	1,778.2	2,260.9	2,779.1	3,341.3	3,049.9	4,201.1
Expenditure						
-Emolument	na	na	na	556.9	549.4	568.0
-Supplies and services	na	na	na	862.8	792.2	891.4
-Assets	na	na	na	363.3	270.9	401.1
-Grants and fixtures	na	na	na	314.0	395.1	630.0
-Misc.	na	na	na	606.9	855.7	980.3
Sub-total 2	1,637.3	1,922.2	2,193.6	2,703.8	2,863.3	3,470.8
Balance (1- 2)	140.9	338.8	585.5	637.5	186.6	730.3

Source: National Audit Department

Source: Extracted from Pg.7 of MARC's report – The State of Sabah⁸

But at the same time, state debt has also grown significantly despite the presence of budget surpluses. The state debt has more than tripled from RM1 billion in 2005 to RM3.1 billion in 2010 (Figure 3 below). The fact that much of this debt was incurred for development expenditure and projects shows that (i) the state government was not prudent in using its budget surpluses for development expenditure (ii) the state government was not prudent in minimizing the costs of these projects (iii) the federal government has not played its part in properly funding development projects in the state.

Figure 3: Sabah State Debt (RM billion)⁹



The state's rising debt prompted this worrying note from the Malaysia Ratings Corporation (MARC) which said that:

*'Despite Sabah's favorable financial standing in 2010, the state's public debt was rising at a faster clip of 30.6% in 2010, owing to bond issuances amounting to RM544 million as well as new loans granted by the federal government totaling RM168.0 million during the year. As a result, public debt stock as a percentage of total revenue remained elevated at 73.9% in 2010 (2009: 77.9%). Higher borrowings by the state are undertaken for the purposes of funding major economic development projects such as water supplies and low-cost housing. However, the rapid rise in the debt level may yield legitimate concerns on the state's ability to repay its liabilities, particularly when the amount of cash balances available is smaller than the size of public debt. The cast-to-debt ratio has been dwindling to around 2.5% in 2010 from as high as 4.5% in 2006, implying the state's reduced ability to service its debt.'*¹⁰

One of the symptoms of this lack of fiscal discipline and oversight is the rapid increase in the amount allocated to the Chief Minister's Department and the Ministry of Finance, both of which are under the direct control of Sabah Chief Minister, Musa Aman.

The Ministry of Finance's allocation has skyrocketed from RM737 million in 2008 to RM1.94 billion in 2012, a 263% increase. During the same time period, the overall budget increased from RM2.3 billion in 2008 to RM4.1 billion in 2012, which is only a 76% increase. The allocation received by the Chief Minister's Department and the Ministry of Finance has been increased from RM1.25 billion in 2008 to RM2.56 billion in 2012 and its share of the total budget has risen from 54% in 2008 to 63% in 2012.

More worryingly, some of the increased allocations have occurred in items which are lacking in transparency. For example, one single item under the budget estimates for the Ministry of Finance entitled 'Special Expenditure' or 'Perbelanjaan Khas' came up to RM1.13 billion, or more than one quarter of the state budget. What is more worrying is that this 'Special Expenditure' amounted to only RM654 million just two years prior, in 2010. This represents a whopping increase of 73.1% in just two years in the 'Special Expenditure' allocation compared to the 22.5% increase in projected revenues. Table 3 below summarizes these allocations and compares them with the overall budget numbers. This situation will be corrected in this budget.

Table 3: Chief Minister's Department & Ministry of Finance vs Overall Budget (2008 vs 2012)

Ministry (RM million)	2008	2012	% Increase
Chief Minister's Department	516	623	21%
Ministry of Finance	737	1,937	263%
Special Expenditures under the Ministry of Finance	654 (in 2010)	1,133	73%
Total: Chief Minister's Department + Ministry of Finance	1,253	2,560	104%
% of Total Budget	54%	63%	9%
Total Budget	2,301	4,048	76%

Source: Sabah Budget Estimates 2012

3 Increased Expenditure under Pakatan Rakyat

3.1 Oil Justice under Pakatan Rakyat

The spirit of the Petroleum Development Act 1974 honours the ownership of hydrocarbon resources that the states in the Federation of Malaysia surrendered to PETRONAS with the intention to create the economies of scale for the industry.

Thus, the issue of revenue from oil and gas activities due to the oil producing states is no longer a financial or contractual polemic. It is a moral imperative that what rightfully due to the people of Kelantan, Sabah, Sarawak, Terengganu and other oil producing states is paid in full.

In the spirit of Kuching Declaration, PR is committed to fulfilling any and all obligations on the part of the federal government in relations to the Petroleum Development Act 1974 and allowing Sabah and Sarawak to hasten the pace of infrastructure projects to catch up with the rest of the country. PR shall honour the pledge to increase petroleum royalty to the oil producing states to 20%.

(Page 64 and 65 of PR's Budget 2013)

Projected receipts from the oil royalty have increased by 66% from RM466 million in 2008 to RM774 million in 2012 compared to a more mediocre increase of 31% from the Crude Palm Oil (CPO) sales tax from RM765 million in 2008 to RM1,000 million in 2012. Given that the actual oil royalty collected was RM831 million in 2011 (compared to a projected RM722 million), it is almost certain that the projected oil royalty in 2013 will exceed RM800 million. We use a projected oil royalty of RM900 million for 2013 under the BN state government. But if PR were to have control of the state budget and the federal government, this oil royalty would increase fourfold to RM3.6 billion given the increase in the oil royalty from 5% to 20%. This means that the Sabah state government would have an additional RM2.7 billion to spend under PR Sabah rule.¹¹

This is not a mere one-time gain. The permanent increase in the oil royalty, coupled with the projected increase in oil production from the current 160,000 barrels per day (bpd) in Sabah to 500,000 bpd by 2017, would mean that the oil royalty enjoyed by Sabah under a PR Sabah government would grow significantly to as high as RM10b within 5 years. A simple calculation would show that under PR Sabah, the Sabah state government would have an additional RM27 billion to allocate in the next 5 years as state expenditure compared to if Sabah was still under BN control. This budget will highlight later, how this additional revenue, spread out over the next 5 years, will be used by PR Sabah to set Sabah on the right track of sustainable and equitable growth where 'the rising tides will lift all boats'.

3.2 Increased Revenues from Good Governance

The Sabah economic landscape is littered with many one-sided contracts and concessions which enable BN-linked companies to reap supernormal profits at the taxpayer's as well as consumer's expense.

For example, in June 2011, the state government approved the extension of multiple contracts to concessionaires for another 10 to 15 years, even before the expiry of the existing long-term contracts. The extension of the road maintenance contracts to five concessionaires including

Pembinaan Kekal Mewah, Gammerlite and Globinaco has a total contract value involves RM800 million to RM1 billion.

There was no open tender held for the award of these contracts. There are also many other state government contracts which were awarded to associates and family members of the BN leaders without going through an open tender process.

The full extent of the financial losses incurred as a result of the state government's investment schemes such as Sabah Amanah Saham (SAS) are still to be known. The state may have lost billions through these investment schemes and yet, to date, no one has been held responsible for these astronomical losses.

PR Sabah will conduct a comprehensive audit of all these investment schemes and review existing unfair contracts and non-feasible projects. A White Paper will also be tabled to State Assembly on the Sabah Amanah Saham (SAS) investment scheme. Once in power, PR Sabah will also engage independent auditors to carry out detailed audits of these contracts and projects. The purpose of these audits are to (i) identify malfeasance and potential corruption in the award of these contracts (ii) to seek compensation for the state especially in cases where the state has been charged for cost overruns (iii) to cancel current contracts which have been awarded under dubious circumstances, and (iv) to honour contracts which were awarded fairly and transparently.

PR Sabah will ensure that all development projects, especially roads and bridges building and maintenance contracts, will be awarded through an open tender system where all contractors will compete on an equal footing.

The PR state governments in Peninsular Malaysia has successfully implemented open tender systems for all big state government projects which has resulted in substantial savings for the state coffers.

If PR's experience in Peninsular Malaysia can be replicated in Sabah, we strongly believe that more roads and bridges can be built through the open tender system as compared to the BN's direct negotiation system because of cost savings on individual projects.

PR Sabah will be able to save approximately RM783 million through good governance measures such as open tenders for state government projects and from reducing unnecessary spending and inflated contracts. This can be done by cutting the non-emolument and non-fixed charges components of the existing budget. Based on the experience of the Selangor state government, it is estimated that as much as 24% of wasteful expenditure and leakages can be cut.¹²

In addition, as previously mentioned in Section 2.0, PR Sabah strongly feels that the budgetary allocation given to the Ministry of Finance and the Chief Minister's Department is far higher than necessary and lacks fiscal transparency. As such, we will re-allocate approximately RM1.1 billion of expenditure from the Ministry of Finance and the Chief Minister's office to other Ministries and to other more productive uses. This RM1.1 billion reallocation represents a cut of approximately 40% for the two Ministries. It reduces the Ministries' combined share of the budget to a more reasonable 30%.¹³ It is important to note that this does not represent additional revenue that will be enjoyed by the state government but rather a reprioritizing of spending priorities in ways which will more

directly benefit individual Sabahans and put the state's economy on a firmer growth path in the longer term.

3.3 Repositioning Sabah for Inclusive Growth and Prosperity

The increase in oil royalty plus the cost savings arising from good governance will yield a total RM3.5 billion in additional revenue while another RM1.1 billion of spending will be reprioritized as a result of reallocating part of the budgets of the Ministry of Finance and the Chief Minister's Department. It is likely that that future increases in the oil royalty would give even greater room for a more impactful fiscal strategy. Hence, while this budget focuses on how the additional revenue and reallocations will be spent, it will also reflect the longer term priorities and strategies of PR Sabah in taking the state to a new trajectory of inclusive growth and prosperity.

This Budget builds on the foundations of the economic footsteps of the PR state governments in Peninsular Malaysia. The state governments of Selangor, Penang, Kedah and Kelantan have successfully widened social outreach programs so that thousands have justifiably benefited from the generosity of the state governments. At the same time, PR state governments have also reinvigorated their states' financial and economic health through competent, honest and prudent management.

This budget will outlined specific plans on how this projected increase in revenue will be allocated based on the following **FIVE** thrusts:

1. *Making Our Land Work*
2. *Raising Disposable Incomes*
3. *Social Outreach for All*
4. *Enabling & Empowering Local Communities*
5. *Improving Our Connectivity*

Approximately 1/3 of the additional expenditure arising from the increased oil royalty and the savings from corruption and wasteful spending together with the reallocation of the combined budgets of the Ministry of Finance and the Chief Minister's Department and the decrease in will be used for operational expenses including social outreach initiatives to many who have been neglected by past budgets. The remaining 2/3 will be allocated towards long term development expenditure that will diversify and put the economy on a new trajectory of inclusive growth and prosperity.

4 THRUST ONE: Making Our Land Work

It is shocking that a state with as much fertile land as Sabah has the highest poverty rate in Malaysia. PR Sabah sees the issue of land ownership and the challenge of poverty eradication as deeply intertwined. As such, PR Sabah will take concrete steps to effectively tackle land reform and concurrently introduce poverty eradication programs. The PR Sabah state government will spend **RM400 million** in totals for initiatives under this *THRUST ONE – Making Our Land Work*.

4.1 Resolving Land Ownership Problems

It is a sad irony that a state with as much fertile land as Sabah would continue to also have the highest poverty rate in Malaysia. PR Sabah sees the issue of land reform and the challenge of poverty eradication as deeply intertwined. More specifically, concrete efforts which need to be taken in order to tackle land reform effectively will also make it possible to introduce poverty eradication programs concurrently.

For example, 306,000 acres of land was given to Federal Land Development Authority (FELDA) by Haris Salleh under the BERJAYA government in 1979 based on a contract that all of these lands would be allocated to small holders to be developed. The land was supposed to be selected and allocated by a committee of four – two from FELDA and two from the state government. Sadly, only 10% of this land was given to smallholders with the rest being kept by FELDA. This is absolutely in contradiction to both the spirit as well as intent of the contract.

Some of this FELDA land is also in disputed Native Customary Right (NCR) land territory. If the original agreement between the state government and FELDA could be reviewed and re-examined, the remainder of the 90% of this land could be reallocated to aspiring smallholders who could then be lifted out over poverty.

PR Sabah is of the view that the FELDA should return the 306,000 acres of land to the state because they have breached the terms and spirit of the original contract and reneged from their obligation to develop the land it was given which was intended to serve the interest of the people of Sabah. The BN state government have failed to protect the interest of the state and its people in the land settlement schemes undertaken by FELDA and should therefore be held accountable and responsible for this. Once in power, PR Sabah will review the 1979 FELDA Agreement 1979 based on its original objective and will undertake the necessary legal channels in order to have this land returned to the state.¹⁴

Similarly, 440,000 acres of NCR land in Sabah are currently dispute and this affects approximately 32,000 families. In addition, there are many thousands of acres of already owned land which remain idle because they have not been made suitable for agricultural use as a result of the lack of know-ho and financial resources.

The NCR landowners stand to be cheated of their land rights under the BN's new conceptualization of NCR land development schemes.

For instance, the state government wanted to acquire 38,000 acres of NCR land from 16 villages in Mukim Lalampas in the Tongod district within the Sandakan division. This land had been earmarked for a mega Agropolitan project. The villages objected to the offer of communal titles to the land

identified by the state government because the land offered to them is located in steep and hilly terrain that is not suitable for agricultural activities. Under these Agropolitan schemes, though the natives are still the lawful land-owners in name through a communal title, in reality, they have literally surrendered all their rights to the companies planting crops, mostly oil palm, on their land. The natives are at the mercy of these companies with regard to whether they will be paid any dividends from these plantations.

These companies, mostly in the oil palm sector, pay extremely low salaries for workers working on these lands and when the natives refused to accept such low salaries, these companies engage cheap foreign workers to work on these plantations. The natives are then compelled to leave home and families and seek job in cities.

This example shows that the present NCR land development scheme as implemented by the BN government is nothing but an exploitation of the NCR landowners dressed up as joint ventures. In order for the rightful NCR landowners to truly enjoy the fruits of their land and labour, there must be a total reform to the current system.

PR Sabah is committed to a genuine effort to identify and carry out a comprehensive perimeter survey on all NCR land to determine the land boundaries of individual lots. Land titles will be issued to these landowners, be it for individual or communal ownership, and conditions will be imposed so that the owners of the land cannot be easily exploited by unscrupulous companies and individuals seeking to buy or exploit these lands.

A Sabah Land Tribunal will be set up by PR Sabah with an allocation of **RM50 million** in order to provide an effective and flexible alternative to resolve land disputes involving NCR land with investigative powers and the adoption of an inquisitorial approach. This Tribunal will act as a Permanent Commission of Inquiry into all land NCR land disputes.

4.2 Developing Land for Agricultural Use

Resolving land disputes and issuing land titles to the rightful owners is merely the first step in the coherent, sustainable and effective land reform and poverty eradication strategy that PR Sabah proposes. PR Sabah will also invest **RM350 million** to assist the owners of these lands in making them agriculturally productive. This assistance will be in the form of building and widening irrigation channels and providing fertilizer as well as land clearing machines and tools and developing post-harvest facilities. It is of utmost importance to clarify that this assistance comes with no strings attached. Acceptance of such development assistance by land-owners will in no way, shape or form result in any government claim to these lands.

In addition, a longer-term development plan to achieve the twin goals of *0 idle land* and *0 hardcore poverty* will be put in place. RM2 billion will be spent over the next five years primarily to encourage smallholders to adopt an integrated farming approach based on food as well as cash crops and to develop supporting downstream and related cottage industries.

Palm oil has a relatively long gestation period of 3 to 4 years, and may require larger land holdings to achieve economies of scale. An appropriate raft of incentives will be developed to encourage smallholders to plant other types of cash crops including cocoa, avocados, tapioca and rubber, to

cover the transition period while the palm oil trees mature, as well as to diversify Sabah's agricultural base to take full advantage of our fertile soils.

Part of these funds will also be used to provide grants for the 10,000 individual small holders to plant new rubber trees at two hectares per applicant.

PR Sabah is committed to the objective of developing land in order to facilitate agricultural activities by the smallholders and owners. This is in stark contrast to the BN's predatory practice of alienating land for its own cronies who then sell this land off to large plantation companies, which are mostly non-Sabahan. Many of these companies do not see the need to develop and grow the overall sector. They merely take advantage of the fertile soil and good climate as well as the bounteous supply of cheap and short-term foreign labour allowed in by the BN government. This limits the economic benefits to the state and to its people.

Consistent with its smallholder-development policies, a PR Sabah state government will charge only a small premium for the extension of 99-year leaseholds on land owned and operated by smallholders. This will facilitate continued ownership of smallholder land through to the next generation. At the same time, PR Sabah will introduce mechanisms to curb speculative activity and ensure that such land remains in the hands to Sabahan smallholders rather than large companies. Any move to convert these lands into other types of land use such as industrial or residential will require the approval of the Central Planning Board.

4.3 Developing Post-Harvest Facilities

The development of post-harvest facilities and capabilities is an integral part of developing agricultural land. Post-harvest and marketing strategies and facilities are of utmost importance especially with regard to downstream industries which will absorb a significant portion of the agricultural output and act as a buffer to bridge the gap between supply and demand.

This would go beyond storage facilities for these cash crops. Downstream capacities such as processing, packaging and labeling will be developed and marketing channels provided to facilitate these smallholders to sell their products domestically and abroad. This will further broaden job opportunities for Sabahans, in addition to ensuring the economic sustainability of this agricultural development initiative.

4.4 Hardcore Rural Poverty Eradicated in 5 Years

Using this land reform and development initiatives, PR Sabah aims to wipe out hardcore poverty in the rural areas in 5 years. Each household, especially those in hardcore poverty, will be given the option of owning their own land for the planting of cash crops. Each household can expect to be able to earn between RM3,000 to RM4,000 per month with 60% of their land allocated to palm oil and rubber and the remaining for cash crops.

Initiatives under the ***THRUST ONE – Making our Land Work*** will cost **RM400 million** in total.

5 THRUST TWO - Raising Disposable Incomes

It is said that 'a rising tide lifts all boats'. As we have seen from the statistics in Table 1, under the present BN government, a few very large boats have been lifted to lofty heights, while ordinary people are left to struggle amidst the rising cost of living without even a life jacket.

PR Sabah will use the increased oil royalty responsibly and sustainably by identifying and implementing strategies that will increase the wages and quality of life for all Sabahans. The land reform initiatives under THRUST ONE address the rural poor. THRUST TWO incorporates strategies that include a gradual increase in the minimum wage to RM1,100 per month, deepening and diversifying of the economy, building human resources - particularly attracting skilled and talented Sabahans home- and educating the young. A total of **RM1,393 million** has been allocated to **THRUST TWO: Raising Disposable Incomes**.

5.1 Increasing Minimum Wages Gradually to RM1100 in 5 Years

The introduction of a RM1,100 minimum wage will be the key strategy to raise minimum incomes in Sabah above the Poverty Line Income which was set at RM1,048 in 2009.

The implementation of this minimum wage system will be in stages, starting with all state government agencies and state government linked companies.

Since companies in the oil and gas sector are enjoying huge profits from extracting the state's natural resources, it is only fair that their workers earn at least a level of minimum income. Implementation of this minimum wage regulation will be extended to other private sector companies gradually, with a timeframe of 5 years before total compliance is enforced.

This minimum wage level will be revised from time to time depending on the trajectory of economic development in the state and other economic factors such as increases in the cost of living.

PR Sabah is fully aware that many small and medium enterprises (SMEs) which are involved in the manufacturing and service industries, which have recently had to raise monthly wages to the recently set RM800 for Sabah and Sarawak, would be badly affected by another substantial rise in the minimum wage.

The PR Sabah state government will contribute to help make the transition economically viable for these SMEs. PR Sabah will make a fixed contribution to the salary of those earning below RM1,100 per month and have their employers gradually increase these salaries by a minimum amount every year so that by the end of the 5th year, all employees will be earning at least RM1,100 per month.

For example, for an employee currently earning the minimum wage of RM800 a month, the state government will provide RM60 to increase the salary of this person to RM860 a month for the first year. The employer pays RM800, which is the current minimum wage level in Sabah. In the 2nd year, the employer is expected to raise the wages to RM860 and the state government will continue to provide RM60 which will result in a total monthly wage of RM920 by the end of the year. In Year Three, the employer will increase the monthly salary by another RM60 to RM920. Together with the state government's contribution, the employee's salary will be RM980 at the end of Year Three.

Continuing in this manner, monthly wages will be RM1,040 by the end of Year Four and RM1,100 by the end of Year Five.

These contributions will be channeled via the Employee's Provident Fund (EPF) accounts of these employees so as to make these transactions more transparent and traceable. This assistance is projected to cost **RM648 million** for the first and subsequent years and can benefit up to 900,000 employees.¹⁵ This significant allocation demonstrates the commitment of PR Sabah to raise minimum incomes in Sabah to the same level promised in Peninsular Malaysia at the end of five years.

PR Sabah calls on all employees and employers to whole-heartedly support this initiative to sustainably raise incomes. Employees must demonstrate good work ethics and a willingness to learn and upskill and employers must put in place measures to improve and reward productivity. Working together, employees, employers and good government policies can start a positive cycle of rising incomes and economic activity in Sabah.

It is hoped that all Sabahans will support this noble objective. To help ensure its success, any exploitative employers who abuse this initiative by, for example, reducing the wages of the employees involved by RM60 per month to off-set the transition support payment will be inflicted with a heavy fine of RM100,000 for every proven case.¹⁶

5.2 Cutting Monopolies

PR Sabah strongly believes that abolishment of monopolies and oligopolies in selected sectors of the economy will lead to greater competition and decreased prices for consumers. The enactment of a new and more effective Anti-Trust Law together with the establishment of an Anti-Trust Commission at the federal level have been proposed in the PR Budget 2013 at the federal level. PR Sabah will complement these efforts by abolishing local monopolies and oligopolies and practices which promote unfair competition and keeps prices of goods and services high in Sabah.

At the top of the list is the abolishment of the cabotage policy. This policy – where only Malaysian-flagged ships are allowed to transport locally-manufactured goods from Peninsula Malaysia to Sabah - which was imposed on Sabah in 1980 has caused the price of good and services in Sabah to soar. The United States, a country which has 8 time zones, has standardized pricing for most of its goods from one coast to the other. Sabah and Peninsular Malaysia, which are within two time zones, have significant price differences. This is the result of the on-going neglect to integrate the economies of Sabah and Peninsular Malaysia 49 years after Malaysia was formed.

We are forced to use Malaysian registered and licensed feeder ships to transport goods from Port Klang, which is more than 1,500km away, to Kota Kinabalu, while shipping costs to and from nearby Hong Kong is much cheaper. For example, a 20 foot container from Port Klang to Hong Kong only cost RM200.00 but it cost RM2,436 to transport the same container from Port Klang to Kota Kinabalu.

The price of goods between Sabah and Peninsula Malaysia differ by between 20% to 30% – a very good example being the price of newspaper such as the New Strait Times, Berita Harian and the Star.

For many consumer goods, the sale price for Sabah and Sarawak is always higher than that of Peninsular Malaysia.

According to Federation of Sabah Manufacturers, statistics from 2011 showed that shipping revenue earned from Sabah amounted to RM1.2 billion a year. It is equivalent to RM35 per person per month based on population of three million, or RM175 per family.

Apart from causing the price of goods and services to increase, the cabotage policy has also significantly hampered the industrialization process in Sabah. It is not surprising therefore, foreign investors are unwilling to come to Sabah and open their factories. Their products which are assembled in Sabah will be 4 times more expensive than the same product assembled in Peninsular Malaysia.

A “full liberalisation” of the cabotage policy would give importers and exporters in Sabah an opportunity to enjoy lower fares due to greater competition in the shipping sector. This in turn would translate into cheaper consumer goods as well as spur on the industrialization process in the state.

Other local monopolies which PR Sabah will abolish include monopolies in the sugar, sand, rubber and cement production which all play a part in increasing the cost of goods and services in the state.

For example, developers are only allowed to purchase cement from the Cement Industries Sabah (CIS) which is owned by the state government. Unfortunately, the supply of cement is not consistent and this affects the construction industry. The developers as well as contractors are at the mercy of CIS. Attempts by BN State Government to monopolise the scrap metal and river sand extraction through government-linked agencies also certainly have the negative side effects.

PR Sabah will carry out these steps with full recognition of the sanctity of contracts and will renegotiate these contracts with due process.

5.3 Economic Diversification and Deepening

Sabah’s economy is too dependent on our rich natural resources. It is dangerous to depend so heavily on our rich natural resources to drive our economy since the state government’s revenue would be overly exposed to gyrations in the world price of these commodities as would the state’s economy

PR Sabah will develop downstream secondary and tertiary economic activities in the Oil & Gas and Palm Oil & Agro-Industry sectors to diversify our state’s economy and reduce our dependence on natural resources and their vagaries. This will take the tertiary sector share of economic activity in Sabah from the current 49% closer to the 63% of economic activity in Peninsular Malaysia.¹⁷

5.4 Beyond Extraction: PR Sabah Will Develop Downstream Oil and Gas Capabilities

PR Sabah will develop the downstream oil and gas sector with a specific emphasis on nurturing the skills and expertise of Sabah-based contractors and companies. Towards this end, and as stated in the Buku Jingga document, Oil & Gas Sabah (OGS) will be established with a capital injection of RM1

billion of which **RM200 million** will come from increase in oil royalty revenue. The balance of the funds will come from the federal government as well as future oil royalties.

As per the process that PETRONAS went through its formative years, OGS will be a state owned oil and gas company that can use Risk Sharing Contracts (RSCs) for the marginal fields in Sabah as a training ground to develop the skills and expertise required to compete in the wider oil and gas market.

There is potential for Sabah to be an oil and gas hub for the region given the substantial oil and gas reserves in the South China Sea. Successfully managed, OGS can play a leading role in such developments, as well as compete for contracts beyond the shores of Sabah.

5.5 Not Just planters: Developing High-Value Agro-Based Industries

In addition, downstream activities in other parts of the agricultural sector have also been under developed. Sabah's economic structure is thus hampered by the stagnation in downstream capacity building and development.

PR Sabah will commit an initial **RM100 million** to establish a Sabah Agro Industry Development Board to explore new ideas in downstream palm oil activities - such as higher value-added uses of biomass, for example – as well as other agro-based industries including fruitculture and R&D in upstream activities. It is important that state agency empowered to develop our own strategic position in palm oil industry, instead of depending on Malaysia Palm Oil Board.

The various Palm Oil Industrial Clusters (POIC) propagated by the current BN state government are basically property investment ventures which add little value to the agro-industry, let alone ordinary Sabahans. PR Sabah will focus on smaller-scale, higher value-added investments to develop the palm oil downstream sector which will both broaden the economic base and create higher-income jobs.

For example, palm oil biomass is currently used mainly as feedstock for electricity generation or as fertiliser. There are potential much higher valued-added uses including conversion to industrial sugar and environmentally-friendly green chemicals products. The BN federal government, in conjunction with its government-linked corporations (GLCs) Sime Darby and FELDA, have gone so far as to ship tonnes of biomass thousands of kilometres across the world to Italy for further studies¹⁸.

PR Sabah believes it is far more sensible for such studies to be done closer to the source, As such we will put in place incentives to encourage such research and development and testing facilities to be located in Sabah. This will develop the palm oil downstream sector as well as enhance the job opportunities available to Sabahans.

In addition, downstream activities in other parts of the agricultural sector have also been under developed. Sabah's economic structure is thus hampered by the stagnation in downstream capacity building and development.

5.6 Enhancing Agricultural Output

The expansion of the agricultural sector is currently focused on increasing the acreage of land allocated to oil palm cultivation, especially by large plantation companies from Peninsular Malaysia.

This policy can yield potentially negative consequences since much of the labour which will be employed in these plantations will be imported from Indonesia given that the low wages offered are not attractive enough for Sabahans. In addition, the cultivation of oil palm involves the clearing of large plots of forested land which will also bring about environmental degradation.

Instead, PR Sabah proposes a more sustainable and less environmentally destructive agricultural policy that emphasizes on food security, the planting of paddy and cash crops such as sago and rubber by farmers cultivating NCR land, for more downstream activities to be developed and for the development of the fishing industry.

PS Sabah's main allocation under agricultural initiatives is the RM360 million allocated to the provision of financial and technical support to the natives community for crop planting activities on NCR land (see Thrust 1). But this alone is not sufficient.

It is important to build new and upgrade old irrigation systems for paddy planting. PR Sabah will allocate **RM70 million** for this purpose.

5.7 SME Focused Industrial Development Policy

PR Sabah's industrial development policy differs greatly from that of the BN. While the BN's industrial development policy hinges on a few mega projects and the monopolizing of government contracts by a handful of companies, PR Sabah's emphasis is on the development of large numbers of small medium enterprises (SMEs).

PR Sabah believes that the backbone and the future of the state's economy lie with the SMEs. The stronger the SMEs in the state, the stronger will be the foundation of our state's economy.

PR Sabah will review and investigate the take-up rates of the plots in all the industrial estates in Sabah. Under the BN regime, many crony companies were given industrial lots at a discount only to see these companies keeping the land idle while waiting for potential buyers. Those without any political connections but have genuine intention of setting up factories are often not able to purchase a plot of land in industrial estates directly from the state government. Instead, they have to purchase the plots from the crony companies at double or triple the alienation price.

Such practices add additional and unnecessary costs to SMEs in the state and partly explain the weak industrial and manufacturing base in the state.

Therefore, the Ministry of Industrial Development will be given the responsibility to clean up these practices including possibly renegotiating the contracts of some of these plot sales for those purchasers who do not build and operate factories on these industrial plots within 5 years from the date on which the provisional documents of plot title are issued. Thereafter, these plots will be sold to SMEs on the open market.

To assist and promote SMEs, PR Sabah proposes to allocate a sum of **RM50 million** to create an SME development fund with the following purposes:

- i. To provide low-interest loan facilities to partly finance those who genuinely intend to set up factories in industrial estates.

- ii. To provide maintenance and upgrading work for infrastructure needs in the existing industrial estates.
- iii. To promote the further upgrading of industrial skills by partially subsidising the cost of post-graduate courses and technical training for employees sponsored by SMEs.

5.8 Improving Forest Management

The BN state government's record of forest management has been poor. It has received a considerable amount of negative attention domestically as well as from international organizations. Illegal logging was rampant and that the uncontrolled issuance of logging licences has caused the destruction of our forest at rates much higher than those permitted under the National Forest Policy. This, in turn, has caused disastrous environmental destruction and degradation.

The quality of water in our rivers has deteriorated over the past few years. The silting caused by the removal of topsoil as a result of unsustainable logging practices is one of the major reasons there have been more serious flooding incidents in the downstream areas.

Despite the lucrative nature of the timber business, the revenue generated from the issuance of logging permits has dropped from RM551 million in 2007 to RM203 million in 2011. The reason for such low revenues from timber licences is obvious - almost all timber licences were given to the cronies and the amount of harvestable timber has been steadily dropping.

To address the identified shortcomings, PR Sabah proposes the following action steps:

- (i) Step up enforcement against illegal logging activities and the importation of illegal logs
- (ii) Limit the exportation of logs in order to protect and develop the local timber downstream industry
- (iii) Establish reforestation and replanting projects to save our forests, rehabilitate destroyed habitats and revive our rivers

Control and limit the issuance of timber licences. Timber licences will be awarded through an open tender system and shall be in smaller lots of 1,000 hectares each. Priority will be given to those having a sawmill and/or involved in timber related manufacturing activities

PR Sabah proposes a sum of **RM25 million** to put these measures into action.

5.9 Providing Affordable Housing

Housing is one the three basic needs, besides food and clothing. PR Sabah considers adequate housing as a fundamental building block of communities which form the bedrock of the nation. In addition, having access to good quality and affordable public housing also increases the disposable income of these property owners since they have to spend less on mortgage payments.

To demonstrate its commitment to finding long term solutions to the problem of low cost and affordable housing, PR Sabah will set aside an initial **RM200 million** to build 50,000 units of public housing costing RM50,000 each. This initial sum is to match the funds set aside for the National Housing Board proposed in PR's Alternative Federal Government Budget 2013. Future injections of

RM200 million a year for the next four years will be used to match similar allocations from the National Housing Board to build affordable houses in the state of Sabah.

A total of **RM1,393 million** has been allocated to **THRUST TWO: Raising Disposable Incomes**.

6 THRUST THREE: Social Outreach to All

It is obvious that it will take time for PR Sabah's holistic policies to overcome the root causes of poverty and income disparity and lay the foundations of sustainable prosperity to take hold. In the meantime, because PR Sabah shares the anxiety of Sabahans in confronting the demands of daily life, an assortment of immediate financial support for the most vulnerable segments of the community will be introduced. Pending continuous consultations with the affected communities for urgent additional support, the following immediate measures are proposed:

- *Tabung Anak Sabah*
- *Skim Mesra Usia Emas*
- *Skim Bantuan Perubatan*
- *Free Water*
- *Skim Bantuan Makanan*
- *Skim Galakan Pendidikan*

It is time Sabahans themselves directly feel the benefits of the oil royalties. In total, the initiatives outlined in **THRUST THREE: Social Outreach for All** is expected to cost **RM437 million**. This works out to about 18% out of the additional RM2.7 billion worth of oil royalty being distributed directly back to the people of Sabah. This is not an uncommon practice among oil-producing states. For example, Alaskans residents receive an average of US\$1,000 a year from the Alaska Permanent Fund, most of which comes from oil revenue.

6.1 Caring for the Young, the Old and the Ill

Tabung Anak Sabah

Every child born to at least one Sabahan parent or who is born in Sabah and whose parents have lived in Sabah for at least 5 years will receive a RM200 savings instrument. When this child turns 18, he or she will receive up to RM2000 from the proceeds of this initial investment. This initiative is similar to the Tabung Anak Warisan Selangor (TAWAS) program started by the PR state government in Selangor. **RM6 million** has been set aside for this initiative which is expected to benefit 30,000 new-born children¹⁹.

Skim Mesra Usia Emas

At the other end of the age spectrum, every senior citizen above the age of 60 will be given RM200 in appreciation of the many sacrifices they have made for their children, their families and for the country. This initiative that will benefit 100,000 senior citizens is expected to cost **RM20 million**²⁰.

In addition, every senior citizen above the age of 60 will be eligible for Skim Mesra Usia Emas. Under this initiative, RM2,500 will be given to the families of these senior citizens upon their passing to help pay for the funeral costs. This scheme has been successfully implemented in Selangor with a similar amount being given out. This initiative is expected to cost **RM12 million** and is expected to benefit 4,800 families²¹.

Skim Bantuan Perubatan

One of the major problems faced by the rural poor is adequate access to quality healthcare especially when it comes to treatments which require the attention of medical specialists and not just General Practitioners (GPs) or medical assistants or nurses. For most of the more complicated cases, many people from the rural areas have no choice but to travel to the big cities of Kota Kinabalu, Sandakan and Tawau in order to seek further treatment from medical specialists. Such journeys, however, exert a financial burden, especially on low income families from the rural areas. Sabah has the second highest percentage of households which live more than 9km from the nearest public health center at 18.7% (Sarawak is the highest at 27.9%).²² This percentage increases to 30.7% of all households in the rural areas in Sabah (Sarawak is the highest at 43.7%).²³

Furthermore, many patients from the rural areas also travel long distances to rural health clinics for treatment or for check-ups for pregnant women. For those from the rural areas who are suffering from tuberculosis or leprosy or kidney problems which requires dialysis and other treatments, they have to make multiple trips either to big cities or tertiary cities or the rural health clinics where such treatment facilities and doctors are available.

Not only do these families have to pay for transportation costs to travel to the big cities or to the rural health clinics, they also have to pay the cost of accommodation, for at least one night. For some families, this financial burden prevents them from even going to the big city hospitals or to the rural health clinics to seek treatment.

RM40 million has been set aside for create Treatment Transit Hostels to help alleviate the financial burden of those in the rural area seeking tertiary health care treatment. In addition, resources for mobile clinics for medical practitioners to visit the rural kampungs for primary treatment will also be increased.

6.2 Basic Essentials - Food, Fuel, and Education

The cost of goods and services in Sabah is higher than that in Peninsular Malaysia. PR Sabah will put in place measures to replace the dismal transportation policies of the BN government including the unfair cabotage policy and the deplorable coverage and conditions of the road network in the state which result in high transport costs.

While these measures take effect, PR Sabah will immediate help to narrow the cost of living between Sabah and Peninsular Malaysia and between the rural and urban areas in Sabah.

Free Water

PR Sabah will provide free water up to the first 20 cubic meters to the approximately 250,000 households with personalized water meters in Sabah. This is another policy from PR's experience with state government in Selangor. Longer-term issues such as access to a clean and regular water supply as well as non-revenue water losses to squatters and illegal immigrants will be dealt with separately. This policy is expected to cost **RM60.5 million**.²⁴

Skim Bantuan Makanan

Fuel for cooking is a basic essential. PR Sabah will provide 1 gas cylinder per month for each household below the poverty line. This will be exceptionally helpful to poor households who pay

significantly higher amounts than their urban counterparts because of the weak supply chain and the high costs of transportation. This initiative, which will most likely be taken up at high rates in the rural areas and among the urban poor, will benefit up to 70,000 households and cost the state government **RM25.2 million** a year²⁵.

In addition, PR Sabah will also provide 20kg of rice per month for all households below the poverty line. The rice initiative will cost approximately **RM30.3 million** and is expected to benefit 70,000 households²⁶.

Skim Galakan Pendidikan

One of the major problems facing Sabah is the high dropout rate among students, especially at the secondary school level. One of the main reasons is the fact that many students, especially those in the rural areas have to travel long distances to reach their schools. For example, in Sabah, 26.4% of households in the rural areas are located more than 5km from the nearest primary school. This number increases to a whopping 68.4% for the nearest secondary school among the same rural households!¹ Small wonder that Sabah has one of the lowest secondary school enrolment rates in Malaysia at approximately 55% of the school going population.

To help households deal with this challenge, PR Sabah has set aside a RM240 for a *Anak-Anak Luar Bandar* scheme in rural areas as a small but practical strategy of decreasing school drop-out rates. This money will be channeled through the mothers in each household on the basis that many comparative studies have shown that contingent assistance of this nature works best when channeled through the mother. **RM43.2 million** has been set aside for this initiative and will be channeled through the school administration system since they are in the best place to monitor if the students regularly attend school or not. This initiative will benefit approximately 180,000 households.

Together with the RM2,000 assistance for students in tertiary studies from poor households mentioned in Section 7.1, poor households in Sabah can expect an average monthly assistance of RM198 in the first year of a PR Sabah state government.

For a family living in a rural area with a single income earner supporting a newly born baby and two retired parents and who earns a minimum wage of RM800 a month, it can expect its income to be increased to RM998. If this household happens to experience a death of a parent, a child going off to university or college and has to make a hospital visit four times a year to seek treatment for a medical condition, the average monthly impact increases to RM1,413 (Table 4 below).

Table 4: Monthly Impact of Social Outreach to a Minimum Income Wage Earner

Item	Amount (RM)	Description
<i>Minimum Wage Contribution</i>	60	RM60 per month
<i>Tabung Anak Sabah</i>	17	RM200 one off (200/12)
<i>Skim Mesra Usia Emas</i>	34	RM200 per year (200/12) for both parents
<i>Free Water</i>	18	RM18 per month
<i>Skim Bantuan Makanan</i>	66	RM36 (rice) & RM30 (gas) per month
<i>Skim Galakan Pendidikan</i>	20	RM240 per year (200/12)

¹ Pg. 38, National Household Income Survey 2009.

Total (1)	198	
Hospital Visit	40	4 hospital visits at RM120 per visit
Child going off to college	167	RM2,000 one off (2000/12)
Parent passing away	208	RM2,000 one off (2500/12)
Total (2)	415	
Total (1) + Total (2)	613	

These are not one-time handouts like BR1M or BR1M 2.0 but will be in place for the full five years which PR Sabah is in power for and is projected to cost **RM283 million** per year.

6.3 Tabung Warisan Sabah for Poverty Eradication and Social Insurance Programs

Tabung Warisan Sabah, will be established, as per the Buku Jingga PR Sabah, with a **RM200 million** allocation from the 2013 Budget, to be topped up to RM1 billion after 5 years. This Tabung will be used to establish various poverty eradication schemes for those who cannot get gainful employment and who, for some legitimate reasons, are not or cannot be involved in the involved in the agricultural sector. This foundation should be seen as being equivalent to the permanent funds which exists in oil producing states where the initial and subsequent endowments are invested and the yearly proceeds used to fund these poverty eradication schemes.

This fund will develop creative and entrepreneurial poverty eradication programs which will involve in the local community as well as NGOs including micro-credit programs for existing small business owners and matching grants for social enterprises.

In addition to the poverty eradication program for the poor, a social safety net needs to be created for those living in hard core poverty.

For instance, a substantial group of urban poor are self-employed. They work as taxi-drivers, daily paid workers, contract baby-sitters or maids and they are not covered by EPF, SOCSO or medical insurance. Their social protection is non-existent and they are one accident or major illness away from being deprived of any income.

There is a general saying amongst the people that “In Malaysia, if you are poor, you can die but not fall sick.” This is a sad depiction of the country's situation and it is also a reflection of the shortcomings of the BN government in providing for the needs of the poor.

The PLI, by definition, is only sufficient for the basic sustenance of a household. A specific Social Safety Net fund will be established for poor families to help them with outstanding financial needs outside daily sustenance such as medical costs associated with unexpected illnesses and pregnancies, accidents in the family, extra education related expenses and other unexpected expenses. The availability of this fund will also ensure that hardcore poor and poor families have a final social safety net in times of emergency.

The total number of hardcore poor and poor households in Sabah is approximately 25,000. PR Sabah proposes an allocation of **RM20 million** from the Tabung Warisan Sabah for provision of a basic social safety net for these households.

This measure is currently in place in most of the developed countries, such as Singapore's ComCare scheme which received an allocation of S\$110 million in its 2009 budget despite the much smaller number of households living in poverty in the city-state. Most developing countries also spend between 1 to 2 percent of their GDP on safety nets.

In total, the initiatives outlined in **THRUST THREE: Social Outreach for All** is expected to cost **RM437 million**. This includes yearly pay outs to eligible citizens of Sabah as well as longer term plans in terms of social insurance which will provide a minimum floor for those living near the poverty line income as well as longer term programs of poverty eradication.

7 THRUST FOUR: Enabling and Empowering Local Communities

PR Sabah recognizes the importance of local communities and their contribution towards building a cohesive and progressive society. A budget is not just about promoting economic development and making contributions to individuals. It also has to include initiatives which strengthen local communities which will have a positive effect on society as a whole. As such, a number of initiatives are proposed under **THRUST FOUR: Enabling and Empower Local Communities**.

7.1 Educating Our Young

Having access to the education system is one of the building blocks of a more civic minded society. Sadly, there exist major gaps in education access in Sabah including not being able to fulfil pent up demand for certain types of schools, high dropout rates among children in rural areas and a relatively low rate of enrolment in tertiary education. In addition, unfairness in terms of allowances given to Sabahan versus Peninsular Malaysia teachers is an example of skewed incentives in the education system which needs to be tackled. PR Sabah's multipronged strategy aims to address each of these gaps.

Firstly, PR Sabah will allocate land for vernacular, religious, government aided and independent schools according to the needs of local communities. PR Sabah recognises the multi-racial character of the Malaysian population and the role in which Chinese and Religious schools have played in the state in producing high quality and well-rounded students. Vernacular schools, which are mostly Chinese schools in Sabah, provide Malaysia with a competitive advantage given the growing economic clout of China and thus, of Mandarin as an important language for commerce and culture.

Such schools have proven capable of nurturing excellent students, who then go on to pursue tertiary studies and successful careers. PR Sabah will set aside **RM50 million** to partly fund the acquisition of land and building development costs for these schools. RM25 million will be allocated for vernacular schools while RM25 million will be allocated for religious schools including missionary and Islamic schools.

It is important that our children be well taught. In this respect, PR Sabah will cease the current BN federal government practice of penalising some Sabahan teachers by paying them RM500 less than their compatriots from Peninsular Malaysia. This warped policy punishes Sabahans in the teaching profession and is a disincentive for Sabahans to teach in the rural areas in their own home state. We will push for this initiative, which is expected to cost RM144 million, to be implemented and funded by the federal government²⁷.

PR Sabah also recognizes the heavy burden of tertiary education on low-income families. The ever escalating cost of such education is exacerbated by the living expenses that also have to be incurred as most students have to move away from home. To help alleviate these burdens, we will provide a one-off allocation of RM2,000 for each student pursuing tertiary studies from families earning less than RM2,000 a month. This initiative is also a concrete step to reward low income families who work hard to provide the opportunities for their children to pursue higher studies and break out of the cycle of having access only to low income job opportunities. This initiative is expected to cost **RM14.4 million** and benefit approximately 7,200 students and their families²⁸.

In addition, PR Sabah will set aside **RM50 million** for scholarship funds which will be open to all Sabah-born students seeking tertiary education in the state. Priority will be given to train doctors and teachers. Very importantly, all scholarship holders will be bonded to return work in the state, and not necessarily for the government, so that human resources and capacity in the state can be increased.

7.2 Helping Religious Organizations and the NGO Community

Religious organizations and bodies such as mosques, churches and temples play a crucial role in building strong communities. These organizations are important meeting points for local communities and they also carry out community outreach activities which the state cannot and should not replicate. In order to build capacity and enable these organizations to carry out their activities, PR Sabah will set aside **RM150 million** for religious bodies including mosques, churches and temples associations. RM100 million will be given to Muslim and RM50 million to non-Muslim religious organizations.

RM3 million from the RM100 million allocation given to the Muslim organizations will be set aside for funding those who are doing their Haji pilgrimage. This will be sufficient to fund 300 people at RM10,000 per person and will be distributed according to each state assembly seat, with 5 people per seat, to start with.

PR Sabah sees the NGO community as important partners and stakeholders in community development, engagement and empowerment activities. The PR-led state governments of Penang and Selangor have actively engaged and funded NGOs and civil society in worthy projects. Efforts such as the Freedom Film Festival and the Eco Film Festival, which received support from the Selangor and Penang state government, are just some of the many examples.

PR Sabah will support the activities of the NGO community by providing an **RM10 million** granted that will be open to NGOs and interested individuals and groups for the purposes of funding community projects including, but certainly not limited to, poverty eradication, cultural enrichment, democracy-strengthening initiatives, gender sensitivity workshops, and inter-faith and inter-ethnic understanding programs.

7.3 Cultural and Heritage Preservation and Enrichment

Sabah's rich cultural practices and heritage need to be integrated as part and parcel of initiatives to build strong local communities who take pride in their identities. These initiatives are meant to highlight and showcase Sabah's rich cultural heritage and diversity and underexplored areas can be scaled-up if they prove to be popular and effective.

First, PR Sabah will allocate **RM20 million** to showcase cultural diversity through innovation and creativity. But instead of the state providing this content, everyday Sabahans will be invited to provide their own user generated content which can then be packaged into short programs or youtube snippets or various infographics and shown through new media or sold to TV networks. The recent success of the "Orang Sabah Style" youtube video - a parody of the worldwide Korean viral sensation "Oppa Gangnam Style" – which has received millions of hits is testament of the creativity of Sabahans, especially in youth, in providing locally generated content that is captivating and

interesting. The growing popularity of Sabahan rapper and social activist, Atama, is another praiseworthy example.

Secondly, PR Sabah will also allocate **RM40 million** to create a Heritage Preservation and Enrichment fund to not just preserve our cultural heritage but also develop new ways of enriching our culture.

This grant can be used to preserve heritage items that are of historical and cultural significance to the various communities of Sabah. This would include tangible items such as books, arts, craft and clothing as well as non-tangible items such as language, speech, customs and other traditional practices.

Other activities which this fund can promote would include developing the handicraft industry. The main obstacle is to effectively gather and market the handicraft products made by villagers in rural areas. The state government will encourage Corporate Social Responsibility (CSR) type projects with the private sector to promote and develop this sector of the economy. This will be of great help to the livelihoods and income of rural Sabahans involved, who are mainly women.

It can also be used to develop heritage and cultural trails and tourism related activities in the interior areas of Sabah especially in the homestay industry in the highland areas in the middle of Sabah. This would help the Sabahans in the interior regions to preserve their cultural practices in an economically sustainable fashion.

Thirdly, PR Sabah will start up grant of **RM20 million** to set up a new TV channel called Sabah TV for the purposes of making programs which showcase the cultural heritage and diversity of our state. This channel will showcase the rich cultural heritage of the state including those which are not popularly known or featured. This channel will also be used to promote native languages such as Kadazan and Murut as well as the cultural practices of the various native groups in the state.

7.4 Caring for the Disabled Community, Senior Citizens and Single Parents

Caring for groups who are often overlooked is an essential component of building strong and cohesive local communities. In this regard, PR Sabah proposes the following initiatives to take care of members of the disabled community, senior citizens as well as single parents. A sum of **RM20 million** will be set aside for these initiatives.

A key concern for senior citizens is their quality of life during their golden years, of which housing options which are available to them is a very important determinant. As one of the basic needs, housing is important not only because it provides a secure and comfortable place for senior citizens to live in but also because it provides the surrounding for senior citizens to interact with one another in a community setting. The need for housing and community interaction is especially urgent among the elderly with little or no savings.

To assist this group, PR Sabah proposes, for a start, to establish a pilot project comprising four senior citizen friendly community centres together with housing options in Kota Kinabalu, Keningau, Sandakan and Tawau. Food support care services will be provided in the housing facilities. We will work with NGOs and other community organizations to provide and supplement the required support services. State land will be set aside for the construction of the required facilities for these pilot projects.

PR Sabah is committed to ensuring the full and equal participation in society by persons with disabilities. We will allocate funds for financial assistance to the disabled and to various state agencies to intensify efforts to help persons with disabilities to lead independent lifestyles, to have sustainable livelihoods and to achieve financial security.

To further fulfil the needs of the disabled community, PR Sabah will ensure that all new buildings must be wheelchair accessible. A 50% discount on the assessment rate shall be given to a house which is occupied by a disabled person. Government agencies like will be directed to give a flat rate discount to households with a disabled resident.

PR Sabah will also appoint disabled councillors in each of the city and district councils in Sabah so that the cares and concerns of the community are cared for.

PR Sabah will also provide an allocation to fund programs specifically for single parents including entrepreneurship training, micro credit for projects, capacity building and also short term aid for housing mothers who have been mistreated by their husbands or who have recently lose their husbands.

We will also be set aside funding to provide for free child care centers in or near the work place in order to increase the female labor participation rates in the country.

7.5 Promoting the Institute of Marriage

As a sign of PR Sabah's commitment to the institution of marriage and family, every newly-married couple will receive RM2,000 from the state government. This marriage allowance will only be given for first marriages. This initiative is expected to cost **RM21.6 million** and benefit up to 22,000 newlyweds.²⁹

7.6 Crime and Safety

PR Sabah will also set aside **RM50 million** for the local councils for crime fighting activities such as the installation of more CCTVs at crime hot spots and also the provision of a local auxiliary police force. The recent 2013 budget announced funds for only 496 CCTVs to be distributed among 25 local authorities in the entire country. This works out to less than 20 cameras per local authority which is hardly sufficient to cover one neighborhood much less one local council.

7.7 Environmental Conservation and Rehabilitation

PR Sabah will also set aside **RM100 million** for an Environmental Conservation Fund to undertake environmental rehabilitation and conservation activities which can enhance the lifestyle of the local communities such as rehabilitation of polluted rivers, improved landscaping for public parks and wetlands restoration.

Finally, an allocation of **RM10m** will be set aside to develop tourism activities and products in the interior areas of Sabah especially in the growing homestay industry in the highland areas in the middle of the state. The tourism infrastructure and marketing for the coastal areas are already well established but this is not the case for the less known interior regions. With the advent of social

media, it should be easier to carry out cost effective ways of developing and promoting ecotourism activities in these off the beaten path areas in Sabah's interior.

A total of **RM536 million** will be allocated for initiatives under **THRUST FOUR – Enabling and Empowering Local Communities**.

8 THRUST FIVE: Improving Connectivity

An efficient transportation network is crucial to not only help reduce the cost of goods, it also improves mobility - physically as well as socially. It gives Sabahans access to more job opportunities as they can reliably, quickly and at reasonable cost to travel where the jobs are; and it gives entrepreneurs and small businessmen access to markets for their products and services.

Sabahans suffer from the twin handicaps of the federal government cabotage policy that restricts sea-trade links and inflates the costs of out-of-state products as well as an extremely poor road infrastructure. It also suffers from poor telecommunication and internet links.

The issue of the cabotage policy has already been addressed under THRUST THREE. In this section, the other issues of poor infrastructure and connectivity which acts as colossal impediments to the economic vitality of Sabah and the prosperity of its people will be addressed.

A total of **RM1,850 million** has been set aside for the initiatives under **THRUST FIVE – Improving Connectivity**.

8.1 Building Roads so Sabahans can Build Livelihoods

Sabah is about 1/2 the size of Peninsular Malaysia, with a land area of 73,631km² compared to 131,598km². But Peninsular Malaysia has nearly 10 times the length of paved roads that we do - at over 85,224km compared to just 9,000 km in Sabah.

The BN federal government barely scratches the surface in addressing the issues of insufficient road networks and poor conditions of existing roads. Under its much-hyped Government Transformation Program (GTP), about 580km of roads were built or upgraded in Sabah in 2011; and another 455km of roads is targeted for 2012 at a cost of RM610 million³⁰. At this rate, it would take the GTP another 100 years, or until 2112, for Sabah to reach the level of road coverage that Peninsular Malaysia achieved 3 years ago in 2009³¹.

Table 5: Peninsular Malaysia is less than twice as big as Sabah, but has nearly 10x the length of paved roads

State / Region	Total Roads (Federal + State) km				Size (km ²)
	Paved	Gravel	Earth	Total	
Peninsular Malaysia	85,224	3,604	4,366	93,194	131,598
Sabah	9,000	10,855	1,515	21,370	73,631
Sarawak	15,150	2,347	3,165	20,662	124,450

Source: Department of Statistics

To more quickly close the development gap between Sabah and Peninsular Malaysia, the PR Sabah state government will allocate RM5 billion over the next 5 years to build and upgrade 1,000km of roads per year, which is double the current rate. This allocation is in addition to the road and bridge building funds that are currently allocated from the federal government each year. **RM600 million** of this RM5 billion will come from the 2013 Budget. As the oil royalties grow commensurately with oil production, the amount allocated to road and bridge building activities will increase.

In addition, the construction of the Pan Borneo highway from Kuching to Kota Kinabalu as well as the towns along the east coast, namely Sandakan and Tawau stated in PR's Buku Jingga and 2013 Federal Alternative Budget will be undertaken and financed by PR at the federal level.

Furthermore, PR Sabah will begin the process of costing and conducting the necessary environmental and social impact studies of a bridge connecting the mainland to the federal territory of Labuan. It is envisaged that this project will be conducted on a cost-sharing basis with the federal government.

Such road and bridge building and upgrading projects will dramatically increase economic activity in the tourism, agriculture and manufacturing sectors as well as decrease cost of living by decreasing the cost of transportation. In addition, many socially desirable outcomes will result such as reduced travelling time to and from schools by children and improving job opportunities and prospects especially for Sabahans in the interior regions.

8.2 Improving Port Facilities

PR Sabah will commit RM1.5 billion over the next 5 years to improve port facilities and infrastructure in Kota Kinabalu, Sepanggar, Sandakan and Tawau. This is in anticipation of increased trade flows as a result of the abolishment of the cabotage policy, increase in manufacturing activity and also the expansion in the number of tourists. The infrastructure improvement will also include providing facilities to host cruise ships as part of a larger economic strategy to increase cruise ship tourism in the state which is currently non-existent. An initial sum of **RM300 million** has been allocated for the 2013 budget for the purpose of kick-starting the port infrastructure improvement activities.

8.3 Railway Extension

Sabah's railway infrastructure is in even worse shape than our neglected road infrastructure. The only railway track in Sabah - the Tanjong Aru-Tenom line - is a mere 134km compared to more than 1,600km of tracks in Peninsular Malaysia. This is another gross example of how Sabah has been left out by the BN federal government in infrastructure development. Not a single sen has been spent to expand the rail network here since independence, while the Ipoh to Padang Besar railway double-tracking project alone swallowed up RM16.5 billion.

The PR Sabah state government will allocate **RM100 million** to expand the railway network from Tenom to Keningau, a distance of approximately 50km. PR Sabah will commit another RM1b in the longer-term to then extend the railway network from Tenom to Tawau and from Tawau to Sandakan via Lahad Datu.

In addition, the PR Sabah state government will upgrade the Tanjong Aru-Tenom railway line so that faster and better trains can be used and travel times made shorter. This upgrading, together with the purchase of new rolling stock, will be undertaken together with the federal government. It is only fair that Sabah is allocated a reasonable share of such development expenditure. As it is, the BN federal government allocated a mere RM4 million of development expenditure in its 2013 Budget to upgrade the railway system in Sabah, while Keretapi Tanah Melayu (KTM) in Peninsular Malaysia was allocated RM3.7 billion.

The enhanced railway network, particularly on the east coast, will significantly decrease the cost of transporting palm oil. It will also reduce wear and tear on the roads by decreasing the number of heavy vehicles carrying palm oil, while making conditions safer for passenger vehicles. Such reduced costs and increased connectivity will certainly have a salutary effect on economic growth and job opportunities for Sabahans.

8.4 Taking Care of the Basic Utilities of Electricity and Water

More than 49 years after the formation of Malaysia, the very basic needs of 24-hour electricity and a clean and regular water supply are still not available to a significant minority of Sabahans (See Table 1 earlier)

Even for those with access to electricity, the supply is often unreliable and unstable. Sabah suffers the highest incidence of electricity supply disruptions in Malaysia as measured by the System Average Interruption Duration Index (SAIDI). At just under 700 minutes per customer in 2010, it is nearly 10 times as high as the 72 minutes per customer experienced in Peninsular Malaysia.

The Sabah Electric Board (SEB) was handed over to the federal government during the time of the BERJAYA state government because of a shortage of funds. Following that, the SEB was privatised in 1998 and renamed SESB when taken over by Tenaga Nasional Berhad (TNB).

PR Sabah is of the view that we should take back control of Sabah Electricity Sdn. Bhd. (SESB) given that the utility company has failed to improve the power supply in the state following the privatisation exercise. Our energy supply needs can be managed by Sabahans since we are more likely to know what kind of energy policy is more suited to the local needs. For example, instead of building dirty coal fired power plants – such as the proposed Lahad Datu plant that was eventually cancelled due to public protests in 2010 – we should look to renewable sources of energy.

The PR Sabah state government will complement federal government initiatives to improve the situation by funding small-scale electricity and water supply projects which are less environmentally intrusive. **RM200 million** will be allocated for electricity generation projects involving renewable energy, particularly for mini hydro generators and low cost solar panels. An additional **RM200 million** will be allocated to fund low-cost but effective local water treatment and supply systems. These power and water projects will be focused particularly on rural and remote areas. In the longer-term, PR Sabah is ready to commit an additional RM1 billion each for electricity and water provision initiatives from future oil revenues.

It is painful to observe that Sabah has been left out of funding for renewable energy sources via the Feed-in-Tariff (FiT) scheme developed by the Sustainable Energy Development Authority (SEDA). None of the sustainable energy sources quota for biomass, biogas, hydro and solar was allocated to Sabah by SEDA. The additional 1% in the electricity tariff which was supposed to fund the Feed-in-Tariff scheme in Sabah was never implemented because of the high level of electricity disruptions.

To fill this gap, PR Sabah will allocate an interim **RM100 million** in funding for the FiT scheme until electricity disruptions fall to levels acceptable enough for industrial users to accept the 1% tariff surcharge.

While the renewable energy source initiatives described earlier would mostly benefit Sabahans in rural areas, the FiT scheme will primarily be targeted at urban or semi-urban individuals and companies for whom it will be much more cost-effective to put electricity back into the grid as they are already plugged in. Potential beneficiaries of the FiT scheme in Sabah include the many palm oil companies as well as large resorts and hotels which consume significant amounts of electricity and also have sufficient space to place solar panels, for example.

8.5 Free WIFI

PR Sabah will allocate **RM50 million** to expanding free WIFI coverage in the state, starting with state-owned buildings and public spaces in the towns and cities. This effort, which is also part of PR's Buku Jingga plans at the federal level, will be carried out together with the federal Ministry of Communications, Information and Culture and is part of PR's Buku Jingga promise at the federal level during the first 100 days in office.

8.6 Urban Public Transportation

The final initiative under THRUST FIVE is an improved public transportation system including a Bus Rapid Transit (BRT) system in Kota Kinabalu. **RM200 million** will be allocated to double the number of buses serving the Kota Kinabalu area under this initiative to be conducted in close collaboration with the local authorities. The experience here will be used to expand the initiative to other cities including Sandakan and Tawau. PR Sabah is ready to commit RM500 over 5 years for this public transportation initiative.

8.7 Sabah Air

Sabah Air used to have a long and distinguished record in providing helicopter and fix-winged plane services in Sabah and Sarawak but several of its core business and other subsidiaries have been left dormant. Sabah Air should be given the responsibility of handling the much neglected and under-resourced 'flying doctor' service which it previously excelled in for more than 20 years. In addition, Sabah Air should capitalize on the oil and gas industry expansion in the state by providing support services to Petronas, and also proposed Oil & Gas Sabah (OGS). In order to expand the capacity of Sabah Air's commercial operations, **RM100 million** will be allocated as a start up grant for the company's transformation.

A total of **RM1,850 million** has been set aside for the initiatives under **THRUST FIVE – Improving Connectivity**.

9 Public Finances: Revenue and Expenditure Estimates

9.1 Projected Surplus Budget

Table 6: Estimated Sabah revenue in 2013

RM million	2011 (Actual Revenue)	2013 (Estimate Revenue)
Tax Revenue	1,501.03	1,576.08
Non Tax Revenue	2,566.55	5,394.88
Non Revenue Receipts	300.9	315.94
	4,368.48	7,286.91

Notes: Actual Revenue of Sabah in 2011 is based on Auditor General Report 2011. All kind of revenues are estimated to be increased with 5% rate, and there is extra RM2.7 billion revenue in Non Tax Revenue as the result of 15% oil royalty increment.

PR Sabah proposes a **RM7.28 billion** supply expenditure for the year 2013. This is a 80% increase from the 2012 Budget of RM4,048 billion arising from a 15% natural increase in expenses coupled with the additional spending plans due to the increase in oil royalties. According to Table 7 below, 44% of the proposed budget will go into development expenditure, which is a reflection of the long term structural spending priorities for this budget.

Table 7: Components of the 2013 Budget Supply Bill

Supply bill	Amount
Emoluments	1,364
Supplies	1,051
Assets	639
Fixed Charges	875
Others / Dev Exp	3,354
Total	7,284

Table 8 below provides the ministry allocation for the 2013 budget. After reallocation and reprioritizing our spending plans, the Ministry of Finance and the Chief Minister's Department now only receives 24% of the total budgetary allocation.

Table 8: Ministry Allocated 2013 Budget

Ministry	Amount
Ministry Of Finance	1,168
Ministry Of Infrastructure Development	1,805
Chief Ministers Department	600
Ministry Of Agriculture and Food Industry	353
Ministry Of Community Development and Consumer Affairs	317
Ministry Of Tourism, Culture and Environment	270
Ministry Of Local Government and Housing	537
Ministry Of Resource and Information Technology Development	796
Ministry Of Rural Development	400
Ministry Of Youth and Sport	117

Ministry Of Industrial Development	706
Expenditure Not Included in Ministerial Portfolios	27
Charge Expenditure	188
Contingency Fund	0
Total	7,284

With revenue estimates at RM7.286 billion, the total expenditure proposed by PR Sabah is estimated at RM7.284 billion, PR Sabah's Budget 2013 will have a minor **surplus** around **RM2 million**, thus a balance budget will be tabled under PR Sabah government, unlike BN's deficit budget.

9.2 Long-Term Structural Adjustments

Article One of the Kuching Declaration by PR leaders on the 16th of September 2012 states that PR will 'restore the spirit of the Malaysia Agreement and the position of Sarawak and Sabah as equal partners within Malaysia by restoring autonomy to Sarawak and Sabah within the framework of the Federal Constitution'

An important component of this reaffirmation of Peninsular Malaysia, Sabah and Sarawak as EQUAL PARTNERS in the Federation of Malaysia is the restructuring of financial resources and policy jurisdictions between the federal government and the state governments of Sabah and Sarawak. PR Sabah is committed and focused on returning greater autonomy in three key ministries - Transport, Health and Education.

The state government, being closest to the people, is much better-placed to decide on where and when to build and upgrade roads, schools, hospitals, clinics and port infrastructure, just to name a few examples. It is also far more sensible for state and local authorities to be in charge of licensing public buses, taxis and ferries. In addition, it is appropriate that Sabahans have more control on policies involving areas such as our history and geography curriculum and the teaching and practice of Kadazan and other Native languages, culture and traditions in our schools.

Over-time, as these structural adjustments take place, the Sabah state budget will grow further as the state takes on more financial and operating responsibilities such as for public transport, amenities, utilities and social welfare. These are areas where local leaders on the ground are better-positioned to tailor responses to local needs.

In this respect, PR Sabah will reinforce state and local government capabilities in expenditure management. For example, state and local leaders will take responsibility for more spending for the following items:

- Expenditure on public transport, amenities, utilities and social welfare. These are areas where local leaders on the ground are far better positioned to tailor responses to local needs
- New responsibilities created, such as the setting up of community police services. Made up of full-time, part-time and volunteer staff as well as retired police personnel, this police service will be an integral part of the community working to identify, prevent, reduce and eliminate issues that affect community safety and order

- To avoid duplication of civil service work, states will have access to the resources at the Economic Planning Unit and relevant federal ministries to assist them in utilising their new allocations effectively.

We envision that more responsibilities as well as budgetary allocations will be given to the state government in areas such as education, healthcare and transportation.

¹ Minister in the Prime Minister's Department Nazri Aziz said the funds were contributions to Sabah Umno, in a parliamentary reply to Tian Chua (PKR-Batu). Reported in *RM40 million smuggled cash not for Musa but for Sabah Umno*. Hazlan Zakaria, Malaysiakini, 11 Oct 2012. The case involved businessman Michael Chia who was caught red-handed at the Hong Kong International Airport with Singapore currency worth RM40 million on 14 Aug 2008, before he could board a flight to Malaysia. Chia was charged with money laundering and trafficking by the Hong Kong Independent Commission Against Corruption (ICAC).

² According to the 10th Malaysian Plan (pg.397), 99100 households with an average of 4.9 per household, were classified as poor in Sabah.

³ Quote by Jim Rohn.

⁴ Minister in the Prime Minister's Department Nazri Aziz said the funds were contributions to Sabah Umno, in a parliamentary reply to Tian Chua (PKR-Batu). Reported in *RM40 million smuggled cash not for Musa but for Sabah Umno*. Hazlan Zakaria, Malaysiakini, 11 Oct 2012. The case involved businessman Michael Chia who was caught red-handed at the Hong Kong International Airport with Singapore currency worth RM40 million on 14 Aug 2008, before he could board a flight to Malaysia. Chia was charged with money laundering and trafficking by the Hong Kong Independent Commission Against Corruption (ICAC).

⁵ Exhibit 3-22 of the Preliminary National Education Blueprint 2013 to 2025.

⁶ National Healthcare Establishments & Workforce Statistics (Hospital) 2008 to 2009. A copy can be downloaded here: https://www.macr.org.my/nhsi/document/Hospitals_Report.pdf

⁷ The primary sector harvests resources from the earth in the form of agriculture or mining products. The secondary sector manufactures finished products. The tertiary sector is the service economy.

⁸ A copy of this report can be downloaded at http://www.marc.com.my/home/userfiles/file/The%20State%20of%20Sabah_161211.pdf (Retrieved 15th October 2012)

⁹ See Footnote 4 above. State debt has decreased to RM2970 in 2011 according to the Auditor General's Report released on the 15th of October 2012.

¹⁰ Pg.6, The State of Sabah, Malaysian Ratings Corporation (MARC)

¹¹ If a less conservative projection of RM900m from the oil royalty was used, a Pakatan Sabah government would have an additional RM2.7b to spend.

¹² Based on calculations made by Rafizi Ramli, former CEO of the office of the Selangor Economic Advisor: <http://www.malaysiakini.com/news/210713>

¹³ This is still higher than the 22% share of the federal budget allocated to the Ministry of Finance (RM40b) and the Prime Minister's Department (RM15b) in the 2013 budget.

¹⁴ <http://www.theborneopost.com/2012/02/13/pkr-sabah-demands-return-of-306000-acres-from-felda/#ixzz29EcNmzoy> (Retrieved 16th October 2012)

¹⁵ Based on Sabah's labour force of 1.2m out of which 75% earn below RM1,100. Of this 0.9 m workers, the average contribution will be RM2400 per worker or RM648m in total.

¹⁶ Employees would be financially disadvantaged if employers were to reduce their wages from, say, RM1,100 to RM1,040 as their EPF contributions will also be reduced. The transition support of up to RM60 per month by the state government does not include an EPF contribution for this very reason - to give employees an incentive to report on such abuses by employers.

¹⁷ Data from the Economic Planning Unit, 2009.

¹⁸ Why did M'sia ship 12 tonnes of biomass to Italy? Hanim Adnan, the Star, 19 June 2012.

¹⁹ There are approximately 40,000 births in Sabah every year. Assuming a 75% application rate for this program, there will be 30,000 applicants. At RM200 per applicant, this works out to RM6m per year.

²⁰ There are approximately 123,000 Malaysian citizens aged 60 and above in Sabah. Assuming a 80% application rate, this means there will be 98,000 eligible applicants. At RM200 per person, this works out to RM19.7 per year.

²¹ There are approximately 6,000 deaths in Sabah every year. Assuming an 80% application rate, there will be 4,800 payments every year. At RM2,500 per payment, this works out to RM12m per year.

²² Pg. 33, National Household Income Survey 2009.

²³ Pg. 35, National Household Income Survey 2009.

²⁴ 250,000 households with water meters at 18RM per month for 12 months works out to RM50m a year.

²⁵ Estimated cost of a gas cylinder is RM30. Sabah has approximately 390,000 households. Assuming 20% of households are below the poverty line; and application rate of 90% or 70,000 households, at RM360 per household for one entire year, this initiative works out to RM25.2 million a year.

²⁶ 20% of households are below the poverty line; and we assume we reach 90% of households in the first year and this costs RM60 per household per month. So 390,000 households x 20% below the poverty line x 90% of households reached x RM60 per month x 12 months = RM30.3 million.

²⁷ There are approximately 24,000 teachers in Sabah who are Sabahans and another 8,000 who are non-Sabahans. An increase in the allowances of RM500 per month or RM6,000 per year works out to RM144m for the 24,000 Sabahan teachers.

²⁸ Approximately 20,000 Sabahan students enter colleges and universities every year. An estimated 40% of these come from households earning less than RM2,000 a month. Assuming a 90% application rate, this means that there will be 7,200 payments every year. At RM2,000 per payment, this works out to RM14.4m per year.

²⁹ There are approximately 12,000 weddings in Sabah every year. Assuming a 90% application rate, there will be 10,800 payments every year. At RM2,000 per payment, this works out to RM21.6m per year.

³⁰ Government Transformation Program Annual Report 2011.

³¹ We estimate Sabah would need 40,000km of new roads and 4,000km of upgraded roads to match the 2009 level of road coverage achieved in Peninsular Malaysia as at 2009. This takes into account that Peninsular Malaysia (131,598km²) is about 1.8 times the size of Sabah (73,631km²).