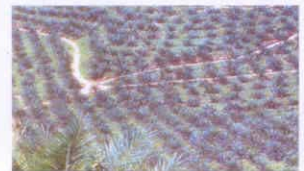
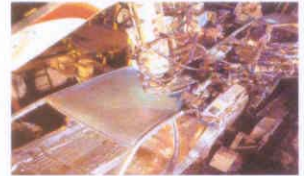
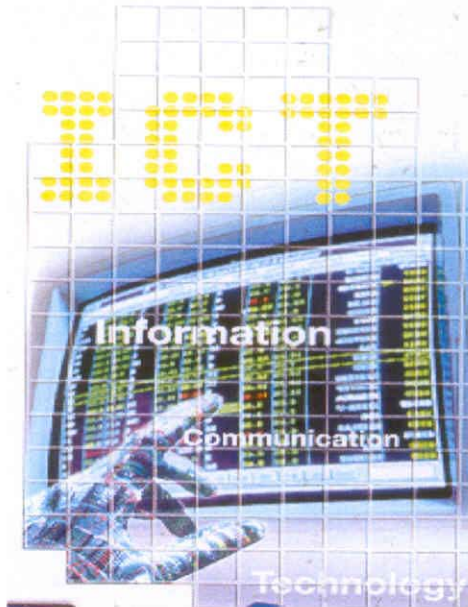


DEVELOPMENT PLANNING IN MALAYSIA



Economic Planning Unit
Prime Minister's Department
Putrajaya MALAYSIA

DEVELOPMENT PLANNING IN MALAYSIA

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DEVELOPMENT PLANNING IN MALAYSIA

No country today allows for complete free rein of the market. The extent of government intervention, however, varies from country to country with greater intervention in developing countries than developed countries. This is not surprising as developing countries lack the institutional mechanisms and a mature private sector necessary for the smooth running of a market economy. And more importantly, they have a greater task and moral obligation to address socio-economic issues, including poverty eradication and equitable income distribution, which would not be tackled if left completely to the market.

The Malaysian government believes that economic growth is not an end in itself but a means to bring prosperity and better

quality of life to all segments of society. In this respect, the principle of “growth with equity” has underlined all our development efforts since the 1970s, which had contributed to a significant reduction in the incidence of poverty and a more equitable distribution of income.

PUBLIC-PRIVATE SECTOR PARTNERSHIP IN DEVELOPMENT

Malaysia’s development efforts are premised on a pro-business growth strategy. The private sector is the engine of growth, while the public sector facilitates development and ensures the achievement of the socio-economic objectives of the nation. The Government undertakes indicative economic planning in its various development plans. At the same time, it adopts market-oriented policies to encourage private sector investment and activities, both domestic and foreign. The collaboration of the Government and the private sector is crucial for the achievement of development goals.

The Malaysia Incorporated concept, introduced in 1983, provides the framework for closer cooperation between the public and private sectors. It perceives the nation as a corporate entity that is jointly owned by the public and private sectors, where both are partners in development. Accordingly, the Government machinery is re-oriented to support businesses. Government officials are required to be more service-oriented and each organization is required to have a Clients’ Charter, which publicly sets out the commitment of the organization to the public, thus increasing accountability. Unnecessary red tape as well as administrative and regulatory procedures are removed to increase efficiency.

DEVELOPMENT PLANNING PROCESS

Development planning was accepted as a function of the Government since the 1950s with preparation of the first five-year development plan of the nation, the First Malaya Plan, 1956-1960. The formation of the Economic Planning Unit (EPU) in the Prime Minister's Department in 1961 enabled development planning to be carried out with authority and ensured the use of the inter-agency planning and monitoring mechanisms.

Planning Horizon

Development planning in Malaysia has a three-tiered cascading planning horizon, covering the long-, medium- and short-term planning horizons, as shown below. Vision 2020 was launched in 1991 to cover a 30-year period. It spells out the national development aspirations over the long term and provides focus for the national development effort.

The outline perspective plans (OPPs) was prepared to set the broad thrusts and strategies in the national development agenda over a long term. The First Outline Perspective Plan (OPP1) was a 20-year plan covering the period 1971-1990. The formulation of development programmes for a 20-year period with reasonable specificity is fraught with uncertainties, particularly with the rapidly changing global environment. Accordingly, the next two OPPs were prepared for a 10 year time frame. The Second Outline Perspective Plan (OPP2) was prepared for the period 1991-2000 and the Third Outline Perspective Plan (OPP3) for 2001-2010.

The next tier is *medium-term planning*, where 5-year development plans are formulated to operationalize the OPPs.

They set out the macroeconomic growth targets as well as the size and allocation of the public sector development programme. In addition, they provide the direction with respect to promoted sectors, thereby giving guidance to the private sector in determining their own investment policies. Currently, the Eighth Malaysia Plan, covering the period 2001-2005, is in operation.

PLANNING HORIZON

◦ LONG TERM PLANNING

- Vision 2020, 1991-2020
- First Outline Perspective Plan (OPP1), 1971-1990
- Second Outline Perspective Plan (OPP2), 1991-2000
- Third Outline Perspective Plan (OPP3), 2001-2010

◦ MEDIUM TERM PLANNING

- Five-year development plans, such as the Eighth Malaysia Plan (2001-2005)
- Mid-term review (MTR) of the five-year Plans

◦ SHORT TERM PLANNING

- Annual Budget

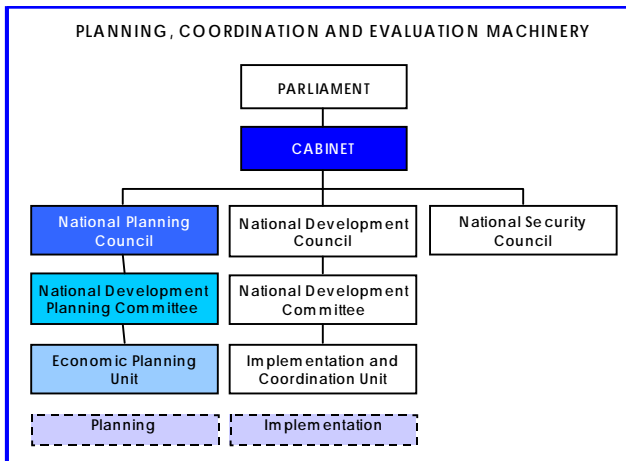
In the middle of the 5-year planning cycles, a mid-term review (MTR) of the five-year plan is carried out. The MTR is not only a stocktaking exercise to determine whether the plan is implemented in accordance with the stated targets and development schedule, it also reviews macroeconomic and sectoral policies and strategies and makes adjustments, if needed.

The final tier is *short-term planning* through the annual budget. It is undertaken by the Ministry of Finance in conjunction with the preparation of the annual budget. The EPU is also involved in determining the details of the annual development budget.

This arrangement has been particularly useful in ensuring the effectiveness of the medium- and long-term plans. In addition, the Central Bank monitors short-term development, focusing on the monetary and financial side.

Planning Mechanism

In Malaysia, the highest level of decision-making in the economic and socio-economic matters is the National Planning Council (NPC), which is the economic arm of the Cabinet, as shown below.



Members of the NPC comprise the ministers of key economic ministries, such as finance, international trade and industry, domestic trade, entrepreneur development, commodities and agriculture. Aside from the NPC, there are two other ministerial councils, namely, the National Action Council, which considers matters on the implementation of development programmes and projects, and the National Security Council, which deals with security aspects. The Prime Minister chairs all the three Councils.

At the officials level, detailed deliberations take place in the National Development Planning Committee (NDPC), which is the highest policy-making forum for development planning. The NDPC is a committee of senior government officials, chaired by the Chief Secretary to the Government. Heads of all economic development ministries, including the Governor of the Central Bank, are members of this committee. The NDPC is responsible for formulating and reviewing all plans for national development and making recommendations on the allocation of resources. It also oversees the implementation of the national development plans.

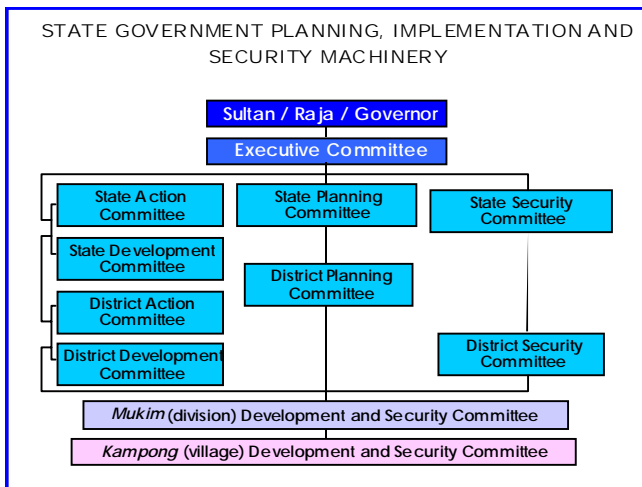
Development planning at the Federal level is undertaken by EPU, Ministry of Finance and the Central Bank as well as the planning cells of the various ministries and agencies. The functions of EPU are supported by two other central agencies under the Prime Minister's Department, namely, the Implementation and Coordination Unit (ICU) and the Malaysian Administrative and Modernization Planning Unit (MAMPU). The placement of the three agencies under the Prime Minister augments the credibility and authority available to these institutions to get the job done effectively.

The planning process also involves regular and on-going consultations with both the private sector and civil society. The institutionalised consultations provide an effective platform for communication with the Government. Such consultations, which are frequently held, have not only resolved problems and bottlenecks but also served to provide feedbacks on a wide range of issues. They include government policies, global markets, the health of the domestic economy and the impact of policies and programmes on the various segments of society.

In formulating the Outline Perspective Plan, the National Economic Consultative Council was set up to give policy inputs.

This council drew its members from all sections of society – government, industrial associations and representatives, academicians, trade unions, political parties, religious organizations, youth organizations, professional bodies, non-governmental organizations as well as other interest groups and individuals.

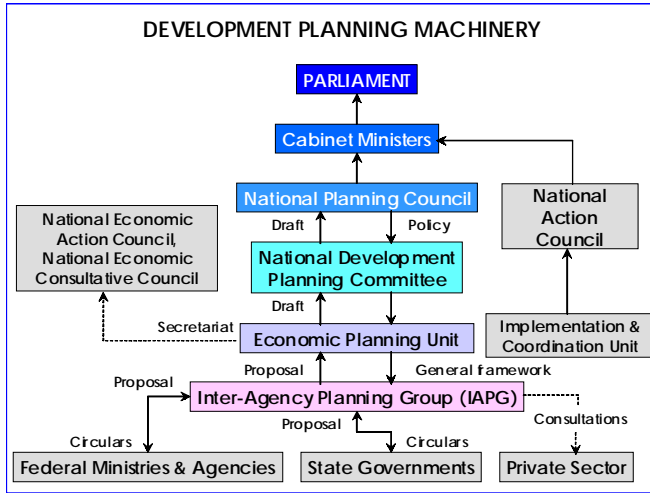
A similar planning set-up exists at the state and district levels, as shown below. At the state level, the State Economic Planning Units and the State Development Offices are responsible for formulating state development strategies and coordinating the preparation of state development programmes and projects.



Planning Process

Planning in Malaysia is a two-way interactive process between the EPU, on the one hand, and the line ministries and agencies, on the other, as shown below. This top-down and bottom-up

processes ensure that national policies and strategies are realized and development concerns at sub-regional level are fully integrated into the overall national development thrusts.



At the Federal level, the EPU in consultation with other central agencies, such as the Treasury and the Central Bank, reviews the past performance of the economy and assesses the country's prospects and potential. It also evaluates existing constraints and bottlenecks. The EPU then prepares the macroeconomic framework and assesses the implications of the growth targets on public sector development expenditure. The final macro planning parameters are determined through discussions among the inter-agency planning groups (IAPGs) and their technical working groups.

In preparation of the Eighth Malaysia Plan, 2001-2005, a total of 25 IAPGs was set up according to topical issues, including macroeconomics, human resource, poverty eradication, industrial development, science and technology, transportation, utilities and social development. The EPU is

secretariat for each of these IAPGs and members are not only drawn from the relevant ministries and agencies but also include representatives from the private sector and civil society, where necessary. During these consultations, factors such as the international scenario, resource availability and constraints and implementation capacity are considered.

Planning from the bottom essentially involves the line ministries, agencies and state governments putting forward their submissions for specific programmes and projects. The EPU plays the key role in matching the micro-level projects with the macro level plans for each of the sectors. In prioritising the projects, the EPU takes into account several factors, including consistency with the overall objectives of national policies, urgency of the projects, financial viability and implementation capacity.

After agreement by the IAPGs, the development thrusts, directions and related policies for the planned period as well as priority orderings for sectors are presented to the National Development Planning Committee for consideration. Upon its recommendation, the development proposals are submitted to the National Planning Council. After which the plan is then presented to the Cabinet before being tabled in Parliament.

Call Circular and Bid for Funds

At the commencement and review of every Plan, Call Circulars go out to ministries, departments, statutory authorities, state governments and the non-financial public enterprises. The purpose of the call circular is basically two-fold - to inform the government machinery of the preparation of the five-year development plan including the future strategic thrusts and to obtain bids for development allocation for the next five years to implement the identified strategies.

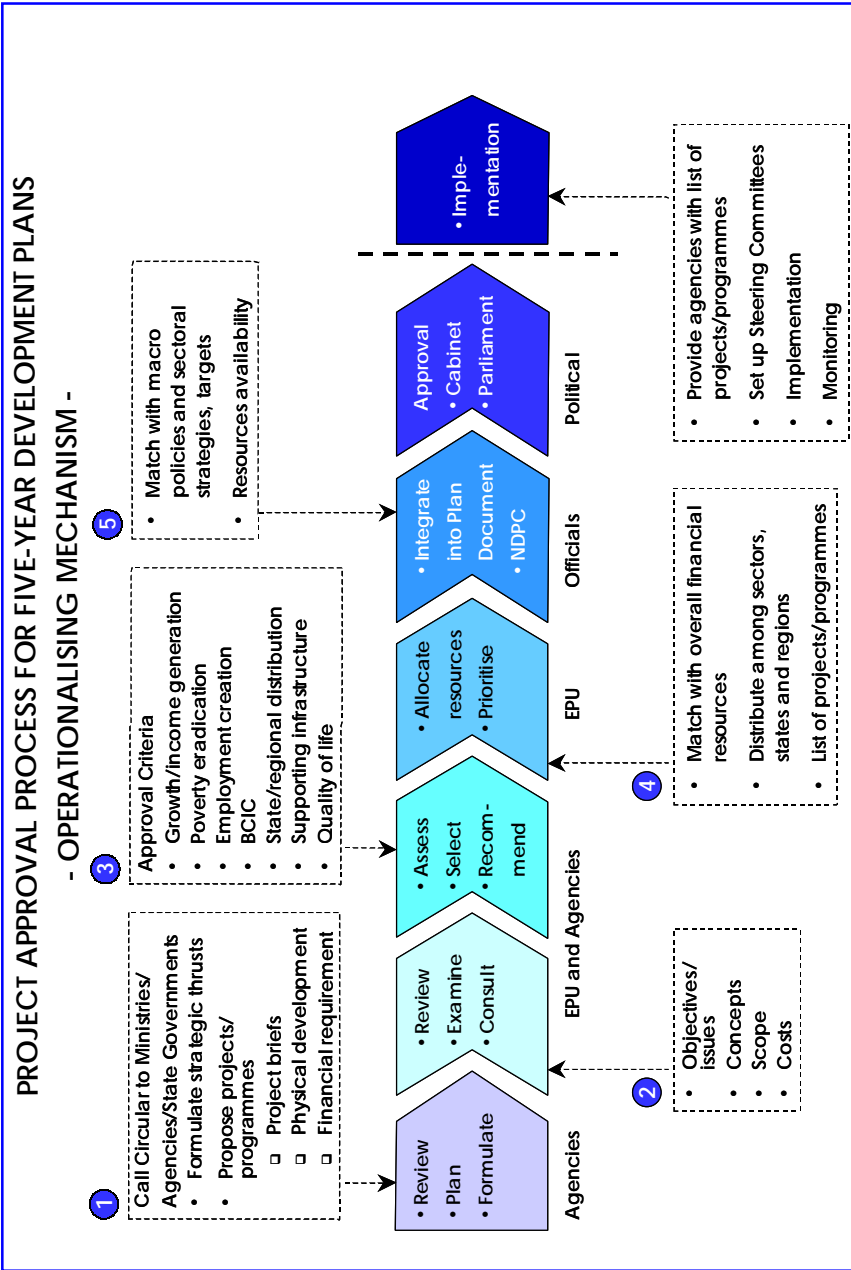
The circular provides general guidelines on the procedures for plan preparation, the schedule for submission, the timing and the criteria for proposed programmes and projects. The various ministries, agencies and state governments are then requested to review their strategies and development thrusts, identify programmes and projects for implementation as well as to bid for the funds required to implement these projects, which include both continuing and new projects, during the plan period. Usually, a framework of 6 months is given.

Project Approval Process

Upon receipt of the submissions, the EPU assesses and prioritizes development projects for the various five-year development plans based on the project proposals by ministries and agencies. It consults with the ministries, agencies, and state governments to review past performance and identify issues, problems, or areas of focus. As part of this effort, the EPU evaluates targets, concepts and programmes proposed, and determines the overall objectives, scope and costs of each programme. For example, the scope of a new university will depend on the size of population (targetted age-cohort), education and training strategy, type of courses or activities and the use of accepted standards for construction and materials.

Prioritising Projects

The number and size of proposals always exceed available resources. Thus, the EPU will have to match and prioritise the requirements with respect to sound public finance practice and development goals. The Government has to consider other objectives including appropriate sectoral distribution as well as state and regional distribution before recommending a final list of programmes and projects. The development budget (with



programmes and projects) is integrated with the policies and strategies contained in the five-year plans. The ministries and agencies will monitor and review the implementation of programmes and projects.

Some of the broad criteria applied when prioritising the projects are growth promotion, project viability, social obligation and needs, poverty eradication, and promotion of regional balance. In the case of infrastructure projects, the development of infrastructure in Malaysia is largely guided by master plans, which help to determine project priority. In addition, projects in urban areas that have potential for privatization are given less priority than the projects with little scope for privatization. Projects in the less developed states and regions are given more weightage than those in the more developed states and regions. Continuation projects are given priority over new projects.

To help determine regional priority, the projects that are proposed by the state branches of Federal Ministries must first be discussed with the State Economic Planning Units (SEPUs) in order to determine the development project needs and requirements before submission to the Federal headquarters. All projects under the state governments or state agencies are to be channelled to the SEPUs, which are given the task of evaluating, examining and making recommendations with regards to the projects. The SEPUs are required to coordinate and consolidate all project requests by state agencies before submitting these requests to the Economic Planning Unit.

At the Sectoral Division in the EPU, desk officers are given an initial budget ceiling for the sectors under their charge. They examine the projects and rank them according to priority. These projects are then discussed at the Development Projects Examination Committees (DPEC), which are chaired by the EPU

and comprise members from the ministries and agencies submitting the projects, the Ministry of Finance, and other relevant agencies. The DPEC goes through the project list, and ministries and agencies concerned would have to provide justification for each of the projects. The project list for the sector is drawn up, based on the selected projects that fall within the budget ceiling for that sector.

The project lists from all submissions are then consolidated and examined at the Sectoral Division. At this stage, there would be some reallocation of the development budget among sectors based on the priority and the quality of submitted projects. Although resources are allocated along sectoral lines, the project list also provides the listing of projects based on allocations by state. This helps in the monitoring of resource allocation to ensure that the project selection gives due attention to the less developed states and regions so as to meet the objective of promoting balanced regional growth. The consolidated project list is submitted to the Cabinet together with the draft chapters of the Malaysia Plan for its consideration and approval.

PROJECT IMPLEMENTATION AND MONITORING

The co-ordination of the implementation of development plans at the inter-state and inter-departmental levels is handled by the Implementation and Coordination Unit (ICU). The monitoring of project implementation carried out by the ICU has been useful in providing information on the implementation capability of the government machinery as well as the economy's absorptive capacity. Impact studies help the Government to gauge the efficiency of the strategies and programmes implemented, particularly in the effort to address socio-economic objectives and thus allowing for the formulation of more effective approaches in subsequent plans. The feedback from the implementing ministries and departments are used by EPU in the subsequent

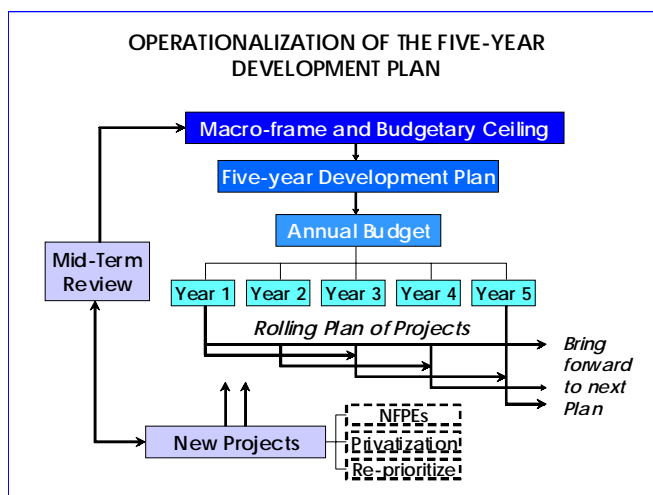
round of planning as the basis for improving the planning approaches and strategies.

As part of the seven flagships under the Multimedia Super Corridor endeavour, the Electronic Government (e-Government) project is set to improve the provision of public services through the use of information technology. A pioneering application under the e-Government project is the Project Monitoring System II (PMSII), which is a state-of-the-art system to monitor the implementation of development projects under the five-year development plans. PMSII has on-line links to all ministries as well as government department and agencies, and up-to-date information on projects are accessible to all linked to the system. PMSII was launched by the Prime Minister in 2001 and is currently being used by ministries and agencies.

ROLLING PLAN

Although the planning machinery and processes seem to suggest rigidity in the system, in reality the actual process is more flexible and pragmatic. This is because planning is done at all planning horizons, namely, long, medium and short-term, and they present opportunities for revisions and incorporation of new information as well as to respond to new problems and opportunities as they arise. This has enabled development planning to respond to new challenges expeditiously.

The EPU continuously monitors the economic situation in collaboration with the Treasury, the Central Bank and other economic-based ministries as well as interacts with multilateral institutions. Shortfalls between planned targets and actual results as well as potential problems that arise from control variables, such as the current account deficit, public sector



financial deficit or inflation, are noted by EPU. Opportunities for policy response are taken during the yearly budget, during the mid-term reviews or when a new plan is being prepared, as shown below. Should the situation warrant an immediate response, policy papers for the NDPC and/or Cabinet are prepared for quick action.

PLANNING DURING A CRISIS

In undertaking development planning, planners need to be pragmatic, flexible, pro-active and responsive. They must be prepared to adjust to changing requirements and circumstances. This can really be put to a test during an economic crisis, such as during the 1997-1998 Asian financial crisis.

The Asian financial crisis had wide-ranging effects on all sectors of the society. It resulted in the loss of consumer and investor confidence, causing a collapse in private investment and drastic

reduction in private consumption. This, in turn, caused the gross domestic product to contract by 7.4 per cent in 1998. The crisis had, to some extent, hampered efforts directed to improving the socio-economic well-being of the people, resulting in a slight increase in the poverty rate.

When hit by the crisis in 1997, the Government realised that it had to respond fast to prevent the economy from slipping into a deeper recession. The National Economic Action Council (NEAC), chaired by the Prime Minister, was established as a consultative body to deal with the economic crisis. Under the NEAC, the National Economic Recovery Plan was prepared as the blueprint for economic recovery. The Recovery Plan contained over 580 recommendations to stabilise the currency, restore market confidence, maintain financial market stability as well as address medium-term issues such as improving economic fundamentals as well as addressing the equity and socio-economic agenda.

Some of the lessons that can be drawn from the crisis are as follows:

- *There is no standard solution to crisis management and resolution.* Each country is different in its social, economic and financial structures and stage of development and, thus, must adapt its policy responses based on the specific circumstances. Crisis-hit countries which fared well were those with public policy that were flexible and pragmatic, adapting to the changing environment;
- *Correct diagnosis is critical to ensure that policy mistakes can be avoided at all cost.* The policy response to a currency crisis impacts not only the domestic economy but can also affect the region. Thus, the policy response

need not only be appropriate and comprehensive, but also adopted in the correct doses that the markets could absorb.

- *Policies should aim at preserving economic strength.* There is the need to ensure that adjustment measures do not lead to an excessive contraction of the economy. Planners do not have to subscribe to theoretical arguments that declines in output are the inevitable cost of much needed structural changes. If the diagnose is correct, structural adjustment can be achieved without severe economic loss.
- *Policy prescriptions should not be rigid but practical and flexible, depending on the prevailing situation.* While policy objectives can remain the same, the measures to achieve the objectives should be adjusted to best suit the changing circumstances. In this regard, new policy choices should not be dismissed. In Malaysia's case, a careful combination of macroeconomic policies and selected exchange controls was successful in creating the right conditions to effectively stimulate economic recovery. However, an important consideration when using the more unconventional policy approaches is to ensure that the required initial conditions for successful implementation are met.
- *Intervention by the government is crucial.* The private sector may not have the capacity to drive such structural changes. The government will need to provide the leadership and funding, while the restructuring exercise itself should be executed on market principles and at market-based prices.
- *Greater efforts at regional cooperation is important to*

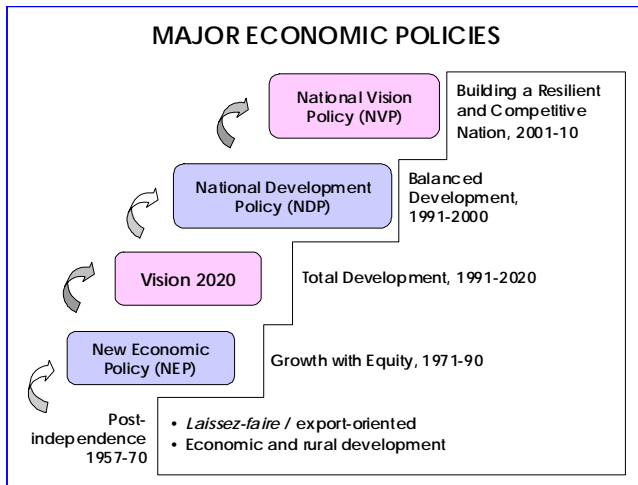
undertake coordinated policy measures that would contribute to mutual benefit of countries in the region and protect the region's interest.

POLICY EVOLUTION

Development policies in Malaysia since independence evolved over time to suit the requirements and circumstances of the nation. Since achieving independence in 1957 but prior to 1970, the development policy was primarily aimed at promoting growth with a strong emphasis on the export market, as shown below. The focus was on *laissez-faire* policy as well as economic and rural development. Although the economy grew very rapidly during this period at an annual average of 6.0 per cent, distributional aspects were not given emphasis, resulting in socio-economic imbalances among the ethnic groups with negative social consequences in the form of a racial riot in 1969.

The launching of the New Economic Policy (NEP) in 1971 was the most significant policy change in the Malaysian history. The NEP emphasized the importance of achieving socio-economic goals alongside pursuing economic growth objectives as a way of creating harmony and unity in a nation with many ethnic and religious groups. The overriding goal was national unity. To achieve this goal, two major strategies were adopted:

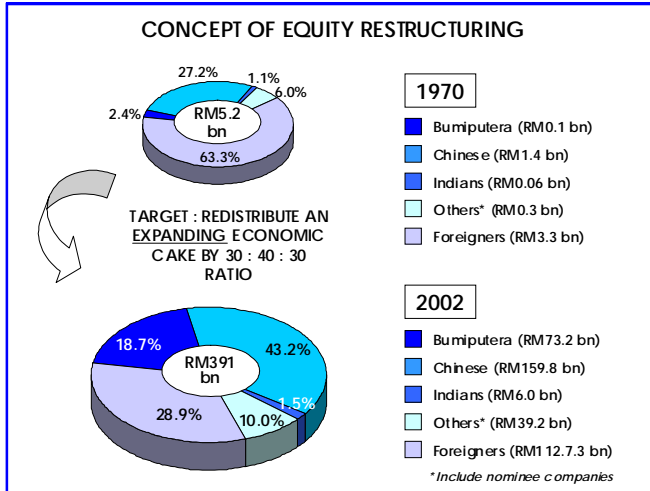
- To reduce absolute poverty irrespective of race through raising income levels and increasing employment opportunities for all Malaysians; and
- To restructure society to correct economic imbalances so as to reduce and eventually eliminate the identification of race with economic function.



An equally critical aspect of the NEP was that it was predicated upon a rapidly growing economy. This was deemed necessary so as to provide increased economic opportunities for the poor and other disadvantaged groups to enable them to move out of poverty and to participate in the mainstream economic activities. In addition, it ensured that distribution did not take place from the reallocation of existing wealth but from expanding and new sources of wealth.

In 1970, more than two thirds of corporate equity in Malaysia was owned by foreigners, while the *Bumiputeras*, the indigenous people who made up two thirds of the people, owned slightly over 2.0 per cent as shown below. The NEP set a restructuring target of 30 : 40 : 30, where by 1990, the holdings of the *Bumiputeras* should reach 30 per cent, other Malaysians 40 per cent and the foreigners 30 per cent, in the context of an expanding economy. By 2002, because the total value of corporate equity expanded by 75 times, the holdings of all groups increased in value in absolute terms. Although the share

of foreign ownership fell to almost a third, its value increased by over 30 times compared with the position in 1970.



Guided by its success in implementing the New Economic Policy and the subsequent five-year development plans, Malaysia moved on to a new and more challenging phase in nation building. Vision 2020, which was launched in 1991, articulates the vision of what Malaysia should be like within 30 years. It has become the basis of planning for Malaysia’s future since the 1990s. Vision 2020 gives an emphatic focus to the achievement of a suitable balance among competing concerns in development. It reaffirms our strong commitment to human development and to raise the quality of life of the people to the level enjoyed by the developed nations.

The National Development Policy (NDP), introduced in 1991, was not only the successor to the NEP as Malaysia’s development policy but also set the stage for the first decade under the Vision 2020. The NDP reaffirmed the relevance of

the NEP by retaining the latter's main elements and at the same time, in view of the emergence of fresh challenges, introduced several new thrusts for balanced development.

These new thrusts, together with the existing ones, served to emphasize the growing concern of Malaysians that increasing consideration need to given to non-materialistic matters in national development which encompass, among others, the strengthening of social and spiritual values as well as the protection of the environment and ecology.

The new thrusts entailed shifting the focus of the anti-poverty strategy towards the eradication of hardcore poverty while reducing relative poverty; emphasizing employment creation; the rapid development of an active *Bumiputera* Commercial and Industrial Community as a more effective strategy to increase the meaningful participation of the *Bumiputeras* in the modern sectors of the economy; greater reliance on the involvement of the private sector in the restructuring objective by creating greater opportunities for its growth; and focussing on human resource development as a fundamental requirement for achieving the objectives of growth and distribution.

In 2001, the Third Outline Perspective Plan (OPP3) was launched with its focus on building a resilient and competitive nation and embodying the National Vision Policy (NVP). While the NVP incorporates the key strategies of the NEP, namely, eradicating poverty irrespective of race and restructuring society, and the NDP's "balanced development", it also introduces new policy thrusts.

These new policy thrusts entail developing Malaysia into a knowledge-based society; generating endogenously-driven growth through strengthening domestic investment and developing indigenous capacity, while continuing to attract foreign direct

investment in strategic areas; increasing the dynamism of the agriculture, manufacturing and services sectors through greater infusion of knowledge; addressing pockets of poverty in remote areas and among *Bumiputera* minorities in Sabah and Sarawak as well as increasing the income and quality of life of those in the lowest 30 per cent income category; achieving more effective *Bumiputera* participation in the economy; and re-orientating human resource development to support a knowledge-based society.

CONCLUSION

Malaysia's success in achieving high sustained growth and rapid development can be summed up as "getting the basics right". This, among others, meant instituting sound development policies, good economic management, promoting private investment, developing human resource as well as providing good physical and institutional infrastructure. The success is not the result of any single policy but different policies applied at different times. The government distinctly played the leading role in structural adjustment, particularly in influencing savings, investment and financial policies. The effective role of development planners was key to Malaysia's success. The consultative nature of Malaysia's development planning process meant that development plans take into account the interest of all stakeholders, thus leading to a sense of ownership by all involved. This is crucial in determining the success in implementing the development plans.

In conclusion, below are some of the important lessons derived from the Malaysian experience:

- The government has a definite role in charting the future directions of the nation but it should not be involved in

activities that crowd out the private sector. Rather, the government should focus on establishing the framework of broad macroeconomic policies and fostering high savings and investments that are channelled into high value-added activities, the provision of adequate and efficient physical and social infrastructure, the development of excellent international marketing linkages for continued export growth, and the provision of a social welfare programme for the disadvantaged groups;

- Growth must be accompanied by equity for development to be meaningful. More importantly, this is the prerequisite for political and social stability;
- Eradicate poverty by providing access to income earning opportunities and not hand-outs as well as engaging the private sector in the process;
- Prudent, flexible and pragmatic role of the government is crucial. Policy adjustments must be quickly made once market forces have demonstrated that certain strategies and policies no longer apply in the light of changed circumstances; and
- Provide a pro-business environment for private investment, entrepreneurship and innovation to flourish and prosper ■