



**MALAYSIAN
YOUTH
PUBLIC POLICY ROUNDTABLE**

11th Malaysia Plan: Towards a First-World Mentality Nation

Discussion Note

23 July 2014

ABBREVIATION

10MP	-	10th Malaysia Plan
11MP	-	11th Malaysia Plan
AIM	-	Agensi Inovasi Malaysia
CPPS	-	Centre for Public Policy Studies
CRC	-	Citizen Report Card
ETP	-	Economic Transformation Programme
FLE	-	Front-Line Employees
GDP	-	Gross Domestic Product
GNI	-	Gross National Income
GNP	-	Gross National Product
GTP	-	Government Transformation Programme
KPI	-	Key Performance Indicator
MEB	-	Malaysian Education Blueprint
MPI	-	Multidimensional Poverty Index
MOU	-	Memorandum of Understanding
MyCC	-	Malaysia Competition Commission
NEM	-	New Economic Model
OBR	-	Office for Budget Responsibility
PPP	-	Public-Private Partnership
SME	-	Small-and-Medium Enterprise
SPAD	-	Suruhanjaya Pengangkutan Awam Darat
TEVT	-	Technical Education and Vocational Training
WCGS	-	Working Capital Guarantee Scheme

A) 10th Malaysia Plan - A Background

1. The 10th Malaysia Plan (10MP) was formulated to lay the foundation for Malaysia to achieve high-income status by the year 2020. The five-year development plan (2011-2015) focuses on supply-side reforms to create a conducive environment for growth amid global recovery from the financial crisis of 2007-08.
2. The 10MP targets average economic growth of 6% to increase Gross National Income (GNI) per capita to RM 38,845 (USD 12,139) by 2015. Numerous initiatives have been introduced towards that end via the Government Transformation Programme (GTP), and the Economic Transformation Programme (ETP), which are guided by the New Economic Model (NEM) framework.
3. Implementation of 10MP initiatives has been met with varying degrees of success. But, the formulation of the Malaysia Plan blueprint and the Key Performance Indicators (KPIs) assigned to public policies lack a humanistic perspective in understanding the behaviour of people, and how they would respond to various incentives and initiatives.

The following section presents the key achievements of 10MP and highlights the policy gaps in understanding both the economic and behavioural responses by individuals, households, and firms.

B) Policy Achievements and Gaps

4. *Income growth: Glass half empty or half full?*

The primary indicator of 10MP is GNI per capita, which increased to RM 31,809 in 2013, while the monthly average income for the bottom 40% of households rose to RM 1,847 in 2012. However, imbalance in the distribution of growth is of greater importance to the long-term sustainability of the Malaysian socio-economy than falling short of achieving the 2015 income target.

In 2012, at least 80% of households earn less than the mean monthly income of RM 5,000. Therefore, in the 11th Malaysia Plan (11MP), more attention should be given to widen productivity gains, especially among the small and medium enterprises (SMEs), and the informal sector.

5. *Fiscal sustainability: Cutting wasteful expenditure*

The Federal Government's debt position was higher at 54.8% of Gross Domestic Product (GDP) in 2013, suggesting that more fiscal consolidation measures are necessary to bring debt down to 49.9% by 2015, as outlined in 10MP.

Various subsidy rationalisation programmes have not been significantly successful in reducing budget deficits due to the commensurate increase in direct cash transfers. Civil servant emoluments are expected to rise faster than productivity each year while the recurrent nature of wastages in public expenditure has yet to be resolved.

It is important to highlight the need to humanise fiscal consolidation measures so that any proposed spending cuts will take into consideration the subsequent economic and behavioural adjustments that will be made by the people. Ameliorative measures must also be implemented in advance of spending cuts while direct cash assistance should be made available only to a well-defined group of recipients. Above all, plans for fiscal consolidation should entail savings from improvement in government practices, and not triggered merely by the need to meet statistical aims.

6. *Innovation-led growth: People-to-people connectivity is key*

Another cornerstone of 10MP is to support an innovation-led growth that is backed by world-class infrastructure. In the first quarter of 2014, Malaysia's broadband penetration rate more than doubled to 67.3% compared to 32% in 2009. The increase in the public transport modal share has met rising overall travel demand, and public transport ridership by rail showed a 41% jump from 2012 to 2013 during the morning rush peak period.

The government should seek to consolidate these encouraging improvements in physical infrastructure initiatives with emphasis on creating an environment that is conducive to people-to-people connectivity, especially between the urban and rural. Achievements in physical infrastructure like the extensive broadband usage should be complemented with fast, reliable, and affordable connections, so that there is creative spill over from ubiquitous real-time information sharing despite geographical differences.

Initiatives to expand public amenities should also include the need to enhance intangible or experience-based outcomes, such as the perception of public service quality, and attempt to achieve policy goals by influencing the behavioural responses of the general public.

7. *Education beyond grades: Equipping students with skills to compete*

Skilled labour accounted for 28% (3.4 million out of 13.7 million) of the workforce in 2013, and it is on track to achieve the 33% target by 2015 as outlined in the 10MP. By growing the talent stock, it produces a virtuous cycle where firms invest to create high income jobs and the country's workforce churns out high-performing workers in a sustainable manner.

Renewed efforts to revamp the current education system are well-documented by the Malaysia Education Blueprint 2013-2025 (MEB) which aims to provide universal access up to secondary education, and produce students who perform in the top third of international student assessments. However, initial

achievements towards that end are less than encouraging with pre-school enrolment levels rising to 81.7% in 2013 (2009: 67%), falling short of the 87% target by 2012 and likely to miss the 92% mark by 2015.

The objective of education should not be confined to mere pursuit of high achievements in quantifiable and standardised tests, or university rankings. Rather, the education system should adopt a more humanistic approach in recognising that not all students will be equally successful in formal education, and that they should be equipped with a diverse set of skills and knowledge, so that each student's unique potential can be unleashed and remain competitive in the global economy.

8. *Quality of governance: More than just data*

One distinctive feature of the 10MP is the clear and well-designed approach in rationalising the role of government in the private sector. The focus of the public sector is now shifted towards enhancing public-private partnerships (PPP) in providing a conducive policy environment for private investment and employment.

However, the perception of quality of governance has improved only marginally as demonstrated by Malaysia's rank, up by one notch from 54th to 53rd, in the Corruption Perception Index 2013. Also, public perception of safety worsened with 56% of people reporting to have a fear of becoming a victim of crime in 2012 (2011: 52.5%), despite the declining trend of the overall reported Index Crime.

The divergence in actual and perceived outcomes has raised concerns over the lack of communication in policy implementation between government and the general public. Many of the differences in policy outcomes are due to conflicting priorities, as well as a mismatch in the government's intended policy goals and the behavioural responses by the public. In the 11MP, the concept of social accountability should be institutionalised in order to encourage people to play a more direct role in shaping public policies.

C) "11th Malaysia Plan: Towards a First-World Mentality Nation"

9. The 11MP (2016-2020) which is set to be announced in June 2015, is expected to extend the previous transformation initiatives in a bid to achieve high-income nation status. This final Malaysia Plan towards year 2020 is expected to be formulated on the basis of an ongoing global economic recovery, therefore providing greater impetus to enlarge the economic pie so that the benefits of sustainable development can be trickled-down to the people in the form of higher dispensable income.

10. However, as argued in the preceding section, there is a need to take into consideration how the people will respond, from both economic and behavioural perspectives, so that the gap between actual outcomes and public perception can be better bridged.

It is also worth reminding that the goals of Vision 2020, which forms the basis of the pursuit of high-income status, encompass the creation of a society that is mature, progressive, and competitive - traits that are associated with a First-World mentality.

11. The Centre for Public Policy Studies (CPPS) is pleased to introduce a Malaysia Plan framework that humanises public policy, and focus on policymaking centred at improving the intangible qualities of life while addressing barriers to self-sustainability in the economy. This framework, entitled "11th Malaysia Plan: Towards a First-World Mentality Nation", provides policy recommendations that are based on the following four themes:

- **Liveable Cities**

Continue to drive national economy with seamless transportation experience; adequate access to public amenities in the face of rapid urbanisation; freedom of expression through arts and culture; and a living environment that is safe and sustainable.

- **Convergence in Rural Communities**

The urban-rural divide is bridged through greater competitiveness of the rural economy; increased compatibility and human connectivity to cities; as well as the promotion of social entrepreneurship in resolving unique and recurrent on-the-ground issues.

- **Resilient Governance**

Institutionalise the performance-based approach in budgetary planning in order to curb wastages; creation of a high-performing civil service that meets rising public expectations; and a shift in mindsets where the public is empowered to play a direct role in shaping policies.

- **Competitive Nation**

Increases the gains for SMEs in the global economy; a gradual removal from resources-based economy and other protectionist measures so that Malaysia can become a merit-based society; retaining human talents to contribute towards nation-building.

D) Theme 1: Osaka, Sydney, and Paris - Making Malaysian Cities Liveable

12. While there are no objective ways to observe and measure the liveability of cities, the cluster of cities that consistently appears at the top of various liveability rankings all exhibit similar characteristics. Non-excessive sprawl, or spreading out of the urban fabric that diminishes connectivity, universal access to healthcare, education and other infrastructure, as well as cultural and natural assets that are well-preserved.
13. A world-class public transportation is essential for cities to be highly liveable since public transport links together various components of a nation's economy. With the absolute amount of ringgit invested to expand capacity at staggering levels, the ridership of public transport is still low compared to foreign cities. Also, rapid urbanisation has already been accompanied by overcrowding, an uneven distribution of development benefits and changes in the ecologies of urban environments.

In the 11MP, the government should focus on enhancing the nuanced quality of public infrastructure and service delivery. They should also expand the capacity of physical amenities so that equal opportunity towards a high standard of living can be created.

Recommendations for the 11MP include:

- A "Strategic Multi-Modal Planning Committee" should be set up, comprising of experts in urban planning, transport operators and the civil service, to strengthen multi-modal transportation planning.
- Improvement in transit networks which include route alignment and a configuration mix of various public transport modes to accommodate the number and distribution of passengers while matching their travelling patterns.
- All forms of development generates traffic, be it construction projects for housing or commercial projects. Traffic impact analyses should be made mandatory as part of the planning stage for new development projects to better plan for future traffic flow and demands on the transportation network.
- A Memorandum of Understanding (MOU) should be signed between the Competition Commission (MyCC) and SPAD to allow for a common platform in regulating anti-competition behaviour such as fixing of territory and price manipulations. A review on the industry structure should be conducted to ascertain the root causes of such behaviour, followed by practical recommendations.

- Update existing methods used to identify low-income social groups by including the Multidimensional Poverty Index (MPI) or the Social Exclusion Approach, both of which include social deprivations in order to allow the government to better identify and serve low-income urban groups.
- Strengthen the mechanism for low-cost housing allocation so that it reflects the concept of needs-based, as well as providing the incentives to maintain the quality and living conditions of these houses. The housing allocation system should also be resilient against manipulation of ownership and ensure that allocation is given only to those deserving groups of people.
- Expand the reach of quality healthcare resources to urban poor given the relatively unequal healthcare service provision. This is reflected with less than 30% of specialist doctors working in the public sector.
- Minimise further the socio-economic differences in education outcomes due to income and opportunities. There should be a stronger emphasis placed on the quality of lesson planning and teaching within schools, as much as offering financial aid through subsidies. Educational approaches should be high on creativity and experiential, and low on rote learning so that students are moulded to acquire higher-order thinking skills.

14. A clearly articulated and coherent arts and cultural policy can provide the nation with more than just a lens through which to view national identity. While everyone in society creates culture, it is the government's role to be involved – often through the arts, in a position of advocating the intrinsic importance of this culture to society.

On the other hand, urban spaces and residents define cities, and it is fundamental for those committed to sustainable urban development to primarily prioritise building a sense of security. Liveable urban environments should not only enable residents to move around comfortably without fearing harm, but they should also be self-sustainable.

15. In the 11MP, the government should focus on capturing spill over from the creative industries in strengthening the real economy.

Also, sustainable development through inclusive bottom-up planning, management, and governance of urban areas ought to be actively promoted.

Recommendations for the 11MP include:

- All children should be given an arts education and in all curriculum streams there should be compulsory arts subjects included that extend beyond music. Including these streams of study in a child's general education will equip them with an artistic and cultural literacy that is important to their educational development.

- Creating clear pathways to a career in the arts where students who receive a technical training in an artistic discipline can be supported through graduate programs, and the like, to develop their skill in a professional workplace. This will help to promote and expand the creative industries in Malaysia. The university sector should create stronger links with the commercial sector around arts policy and the cultural industries.
- Establish an Arts Council to capitalise on new creative software and technologies, and promote creative industries through grants, foreign students and talents exchange, and generate closer ties with the industry.
- Enforce standardised town planning guidelines to foster security, such as increasing visibility. All bus stops should be well lit and provide adequate shelter for at least 5 adults.
- Encourage bottom-up planning, management and governance of urban areas by having steering committees work alongside the government to set broad priorities with the aim of a creating sustainable cities.
- Promote the construction of green buildings that require less energy for lighting and temperature control through the innovative use of glass and air flow systems. This could be encouraged through subsidies and loans, and certification of energy use in an effort to promote competition in the local construction industry towards sustainability.

E) Theme 2: Converging the Rural Communities

16. Regional inequalities in Malaysia continue to be a matter of concern, particularly the divergence in quality of education and healthcare which deprives rural communities from catching up with urban growth. The lack of convergence lies not only in the technology gap, as explained by mainstream economics, but also in differences in "social capabilities." This also includes quality of political-business institutions and the focus of policy interventions which are alleviating poverty as opposed to building capacity.
17. The country's informal, or shadow economy constituted an average of 31.3% of the Gross National Product (GNP) between 1999 and 2006, which is relatively large compared to other upper middle-income countries. The lack of systematic bookkeeping in the informal economy forms a major barrier in gaining access to financing opportunities and other public initiatives to promote competitiveness. In the 11MP, the government should make the policy environment more conducive to the formalisation of the shadow economy in a bid to optimise the distribution of growth.

Recommendations for the 11MP include:

- Streamline the regulatory processes to formalise the shadow economy and incentivise the registration of businesses, so that the government can target its policy implementation and extending business grants more efficiently.
 - Widen access to micro-financing through a consolidation of processes in government agencies. More than half of SMEs cited the lack of collateral as barrier when accessing financing. Current funding via the Working Capital Guarantee Scheme (WCGS) dries up too soon which indicates that the government should consider prioritising its target groups and improving its mechanism in the disbursement of funds.
 - Increase attractiveness of the skills-based economy via a revamped Technical Education and Vocational Training (TEVT) curriculum that is supported by extensive incorporation of diploma-level accreditation as well as closer links with commercial industries to produce graduates that meet requirements for employability.
 - Increase attractiveness of the skills-based economy via a revamped Technical Education and Vocational Training (TEVT) curriculum that is supported by the extensive incorporation of diploma-level accreditation, as well as closer links with commercial industries to produce graduates that meet requirements for employability. Almost 70% of informal sector workers leave school without a post-secondary certificate. This suggests the need to incorporate working adults in TEVT.
 - Institutionalise gender equality at work through the establishment of the Fair Work Commissions to combat discrimination in career progression and pregnancy. Also, address barriers facing female workers in and from the rural areas. Malaysian women's participation in the workforce, which stood at 52.4% in 2013, was among the lowest in ASEAN, while women's participation rate in rural areas is lower (47%) than in urban areas (54.7%), therefore an urban-rural gap further accentuates regional socio-economic disparities.
18. As Malaysia moves towards high-income nation status, there should be greater convergence between the urban and rural communities in income growth. In 2012, the median income for urban households was RM 4,238 per month compared to RM 3,010 in the rural. Nearly 86% of rural households make less than the national average of RM 5,000 while only 59% of urban households earn less than that.

In the 11MP, the government should seek to raise rural competitiveness by identifying and exploiting economic advantages in rural areas. There must be added emphasis to promote compatibility and self-sustainability in urban-rural economic activities which include a greater flow of ideas, labour, and financing opportunities.

Recommendations for the 11MP include:

- Develop niche markets in rural areas by identifying key local competitive advantages. Notable success stories include higher education in Semenyih, the textile and garment industry in Nilai, and a furniture hub in Muar. These are competitive while also going global.
- Encourage social entrepreneurship through the creation of a local Social Enterprise Council. This council will act as a governing body, making certain that the methods social enterprises employ do not negate, but rather supplement the government's efforts within rural communities. Products and services should also be assessed, ensuring that they are not sub-standard or fail to meet the social enterprise's aims.
- Set up social enterprise incubators to promote the exchange of ideas, expand networks, and create partnerships. Training and funding should also be extended to social entrepreneurs with practical ideas that meet immediate needs of a locality.
- Promote social entrepreneurship through higher education so that students can get more exposure to issues on the ground. By having solid partnerships with other social enterprises, both locally and globally, social entrepreneurship can emerge as a viable career option. This will be self-sustainable in terms of stock of human capital.
- Incorporate social entrepreneurship as part of Agensi Inovasi Malaysia (AIM)'s mandate. AIM should also act as a one-stop centre for opportunities in funding, training, networking and partnership.

F) Theme 3: Making Governance Resilient

19. For the fourth consecutive year, The Global Competitiveness Report has reported "inefficient government bureaucracy" as the most problematic factor for doing business in Malaysia. Burdensome administrative procedures and arbitrary decision making by public officials push up the costs of doing business, while discouraging private investment. Poor implementation of government initiatives compounded with wasteful public spending distorts the original intention of public policies. This ends in creating barriers to socio-economic development.

In the 11MP, there must be a re-thinking of the notion of governance. This goes beyond strengthening institutional checks, but also to institutionalise mechanisms that enhance the deliberative qualities of democracy in policy making and implementation.

Recommendations for the 11MP include:

- Establish an independent Office for Budget Responsibility (OBR) to oversee the implementation of OBB. This is to avoid relegating the OBB system to mere compliance check points. The OBR should have the legal authority to monitor, review and conduct in-depth evaluation of public programmes.
 - Introduce a Performance Rating and Assessment System to prioritise spending according to national goals. Each ministry should be allowed to rank priority in the budgeting of programmes based on certain checklists, and justifications. This system should encourage each ministry to better track the performance of programmes, and to remove obsolete programmes based on a self-assessment.
 - Impose budget cuts of 10% on underperforming programmes via a mid-term review. The threat of budget cuts will promote operational efficiencies within each ministry. However, given the high intensity in programme review, which would include programme auditing as well as on-the-ground inspection, it is suggested that the strategic review mechanism be applied only to public programmes with significant budgets or with greatest impact on the general public.
 - Expand public consultation exercise in budgeting priorities for greater social accountability. By allowing the general public to play a greater role in assessing policy outcome, the government will be better equipped with information when identifying solutions to address policy gaps.
20. While the effort to transform the civil service is largely commendable, there is a lack of focus given to ameliorate underlying causes of stagnation in the growth and development of the bureaucracy. This includes the potential overstretching of the civil service due to rising expectations by the public. There is also resistance in changing mindsets as a reward system that has failed to link pay to performance.

In the 11MP, the government should also encourage social accountability to ensure that public policies are serving the needs of the people and that the confidence in public policy rises in tandem with the degree of answerability by policymakers.

Recommendations to reform civil service include:

- Reduce the size of civil service through social entrepreneurship, so that non-core functions or routine-based delivery can be contracted out to social entrepreneurs who will be given clear mandate to provide services in a timely and efficient manner. These social entrepreneurs have the advantage of being flexible in making tough human management decisions and also the incentive to remain financially sustainable.

- Improve the responsiveness of front-line employees (FLE), since the high frequency of transactions between front-line civil servants and the general public forms the perception of quality of governance. There must be also a routine review at the policy-making level to take actions in improving the responsiveness of front-line civil servants, while the reward mechanism should reflect achievements in experiential qualities expected from a high-performing civil servant.
- Strengthen competency-based selection in the recruitment process in order to raise the job profile of public administrators. There is also a need to construct a sustainable talent pipeline via the "Management Associate Programme" so that young and highly capable public officer talent today will assume leadership positions at a later stage in their career.
- Create a people-oriented civil service by ensuring that the ethnic make-up of the bureaucracy is similar to the actual demography of the country. A customer-oriented civil service can also be further strengthened through the use of a citizen's report card where qualitative indicators such as "friendliness" and "responsiveness" are assessed and fed into consideration for a public officers' annual evaluation.
- Institutionalise a merit-based reward system by implementing a two-tier pay structure: a Basic-wage that requires individualised review periodically, and a variable-wage that differs according to the extent of individual or department performance, as well as the general health of public finance.

Recommendations to strengthen governance include:

- Strengthen institutional checks-and-balances by creating more bipartisan parliamentary select committees to have a more in-depth understanding of national issues.
- Resume local elections to encourage direct political participation. Through direct representation in local government by general public, it will encourage greater accountability when providing public service and foster close working relationships between local communities and public officials when responding to local issues.
- Improve government accountability through participatory performance monitoring which includes various forms of social auditing of public service delivery. The Citizen Report Cards (CRCs) allow periodical tracking of citizen satisfaction over performance by public agencies.

- Extend and strengthen the use of a Citizen's Charter to rank all forms of public services according to their readiness and ability to commit for quality control, together with the threat to withdraw the Charter status in a bid to shame agencies who fail to meet targets.
- Institutionalise a Citizen Advisory Board and Budgeting Council to allow the involvement of everyday citizens in the process of shaping the policy agenda and agreeing to budgeting priorities at all levels of government. Apart from enhancing the deliberative quality of governance, these boards also act to enhance the credibility of public institutions.

G) Theme 4: Making Malaysia a Competitive Nation

21. The competitiveness of a nation has always been measured in economic terms such as productivity levels, investment in technological infrastructure and ease of doing business. However, the institutions of a market economy must also be understood in the context of political and social relations too. In this respect, the government should, through the 11MP, make Malaysia more competitive by removing socio-political barriers to a merit-based society, and promotes a more equitable growth distribution that is based on needs.

Recommendations for the 11MP include:

- Remove industrial protection policies that are against fair competition. Notable are the automobile and steel production sectors, which have not only discouraged efficient operations, but also perpetuate rent-seeking behaviour that is inconsistent with the concept of sustainable competitiveness.
- Assist SMEs, which constitute 99.2% of total business establishments in Malaysia, to go global by taking greater advantage of the many trade agreements that Malaysia has subscribed to. Dissemination of information by trade agencies should be made more widely available, while restrictions on free movement of talent should be loosened in order to raise the attractiveness of Malaysia as a competitive nation.
- Reduce dependence on resource-based economic activities given its increasing scarcity and adverse impact on the environment. Policy intervention to discourage excessive extraction is also necessary so that future streams of income are sustained.
- Establish a new trust fund to reinvest part of the resources gains into supporting high-impact research in a bid to generate productivity gains while finding niche markets in the global economy.

- Promote equality of opportunity and the barriers to entry that some groups and individuals face. The government's system of affirmative action should be made more needs-based and be extended to include all ethnicities.

H) Conclusion

22. The challenges identified towards achieving Vision 2020 are best understood as a work-in-progress. This is particularly true when they concern changing the mindsets of individuals and society as a whole. State-society relations evolve, and so does the role of government in shaping the growth and development of the country.

Over the next 5 years, the government should continue to foster strong PPP, but with added emphasis on social accountability so that initiatives can better reflect the needs on the ground, and better humanise the policy instruments used.

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