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Primer

Malaysia's Experience with National Development Planning

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Acknowledgements

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Primer on Malaysia's Experience with National Development Planning

1. Introduction

This background note, prepared for the inaugural meeting of the Planning Community of Practice (PCoP), describes Malaysia's experience with national development planning at the federal level. Malaysia's planning system can be considered as being relatively sophisticated among countries in its income group worldwide. The country has had sixty years of experience with national development planning and is now implementing its eleventh five-year development plan (the 11th Malaysia Plan, 2016-2020). These medium-term operational plans are developed within the framework of a longer-term perspective or vision covering ten to twenty (or even more) years. They are linked to the budget cycle, ensuring that the policies, strategies, programs and projects contained in the medium-term plans receive annual budgetary allocations to fund their implementation.

Across the developing world, national development planning has been a feature of the development paradigm since the end of World War II and gained currency during the "independence era." It has been employed with varying degrees of success in many countries around the world as a way of accelerating the development process in a coordinated fashion in response to citizens' expectations and demands, particularly the drive for rapid industrialization and job creation. In the 1960s and '70s during the two United Nations Development Decades, national development planning was buoyed by the example of successful experience with "indicative" planning in developed western economies such as France and The Netherlands, the more "imperative," centrally-planned economy model, as well as the apparent early successes in some developing countries such as India.

Historically, the existence of a planning document ("the Plan") served several purposes. First, it was considered a prerequisite for attracting foreign direct investment (FDI) and accessing foreign aid and loans. Donors, in particular, relied on development plans to assess their assistance and investments in relation to a government's overall development strategy and objectives. Second, the planning process served a political purpose by establishing priorities and injecting realism and rationality into political discourse, exerting a certain

degree of discipline over both government and opposition. Third, from a public administration standpoint, the existence of a Plan can impart a strong sense of collective purpose and establish clear priorities among government ministries and agencies. Planning also facilitates coordination as government ministries, departments and agencies which, having contributed to the formulation of the Plan, would be aware of their roles in its implementation. Finally, when linked to the budget process, the Plan can translate into a powerful check on ministries' spending plans and ambitions.[1]

In the above context, this note focuses on the nuts and bolts of Malaysia's approach to national development planning. The remainder of this note is divided into four sections. The following section – Section 2 - provides a brief history of Malaysia's planning system. It relates when national development planning was introduced, the modalities employed, and the early goals and objectives. Section 3 describes how the planning function works in practice, the institutions and stakeholders involved, the long-, medium-, and short-term planning, the connection between planning and budgeting, as well as the monitoring of the national development plan implementation. The section also describes the central role of the Economic Planning Unit (EPU) in planning, coordination and the preparation of the development budget. Section 4 traces how the planning machinery has evolved in terms of new approaches, tools and structures introduced to keep up with the changing local and global scenario. The final section describes some of the challenges and lessons learnt.

2. Malaysia's Planning System: A Brief History

Development planning in Malaysia began with the Draft Development Plan, published in 1950 by the British administration. The then colonial High Commissioner wrote in the plan that "… a country that is becoming a nation must have a policy and a plan". The document outlined the long-term social and economic policy objectives for the Federation of Malaya for the years 1950 – 1955, covering the development of social services, national resources and utilities, and trade and industry, and possible sources of financing for the plan.

A report published by the International Bank for Reconstruction and Development (IBRD) in 1955 recommended the establishment of an Economic Committee to review development

[1] Faber, Mike and Dudley Seers (eds) (1972), ***The Crisis in Planning Volume 1 – The Issues***. London.

proposals and make recommendations to the Federal Executive Council.[2] The report, titled 'The Economic Development of Malaya', followed a mission to Malaysia to assess its available resources for development. It covered development planning, among other things, and argued that the country must carefully plan and control its development efforts to overcome the multitude of challenges facing it at the time, which included a restricted national income, strained resources and a rapidly growing population. The report recommended that an Economic Committee of the Executive Council be established to review "all development proposals involving significant expenditures from government funds, and to recommend to the full Council which proposals should be implemented and in what order of priority".

On 24 April 1956, an Economic Committee and Economic Secretariat were established to plan for the social and economic development of the country. The first Prime Minister of Malaya, Tunku Abdul Rahman, announced at the tabling of the Report of the Federation of Malay Constitutional Conference, that the Economic Committee would be set up "to coordinate economic policy and to determine priorities of our economic projects". An Economic Secretariat, headed by a British officer who was a former Economics Affairs Member on the Federal Executive Council, was also established to serve the Economic Committee. It was tasked with the development planning of the country in consultation with the other Government ministries and branches.

Malaya's First Five-Year Plan (1956-1960) prioritized the replanting of rubber on estates, increasing agriculture and mining output, opening up land for agriculture and boosting industrial development. The newly established Economic Secretariat was tasked to review an IBRD proposal for a public investment plan, intended to replace the Draft Development Plan (1950-1955). In October 1956, the first elected Government of the Federation of Malaya adopted the proposal and called it the General Plan of Development (1956-1960) or Malaya's First Five-Year Plan. While the Government was faced with numerous challenges during the plan period, including the transitional issues of a newly-independent nation, a communist insurgency and a recession in 1957-1958, the country experienced significant economic progress. The rubber replanting initiatives in the plan, which continued even after 1960,

[2] At the time, the Federation of Malaya's Government consisted of the Federal Executive Council and the Federal Legislative Council, which served to assist and advise the British High Commissioner.

played a vital role in Malaysia's later success in becoming a leading producer of natural rubber in the world.

In 1960, the need for a strengthened framework for development planning led to the reorganization, expansion and renaming of the Economic Secretariat to the Economic Planning Unit. The rapid growth and intensification of rural development efforts in the country produced a compelling need for the existing development planning apparatus to be strengthened and prioritized within the national development agenda. In June 1960, a Cabinet paper that proposed a new, independent and central economic planning unit under the Prime Minister's Department was approved, leading to the renaming of the Economic Secretariat to the EPU. The EPU remains the main agency with the executive authority to initiate, undertake and implement development planning, and to directly advise and consult the Prime Minister on development planning matters up to today.

Malaysia's post-independence, pre-1970 plans were focused around stimulating growth, diversifying economic activity and integrating the nation. As a young nation, Malaysia faced many challenges, including a rapidly growing population, an over-reliance on the rubber industry, and a pressing demand for jobs and basic facilities, particularly in the rural areas. The Second Five-Year Plan (1961-1965) and the First Malaysia Plan (1966–1970) were primarily focused on boosting growth, improving exports, diversifying economic activity and unifying the Peninsula, Sabah and Sarawak. While the policies led to significant progress in economic growth, rural development and infrastructure investment, little emphasis was given to the distributional aspects of growth and socio-economic imbalances.

From the 1970s onwards, Malaysia's development plans centered around the objectives of national unity and inclusive development, achieved through poverty eradication and social re-engineering strategies, and within a context of continuous economic growth. The guiding of national development involved a variety of instruments, including long-term policies, five-year plans, annual plans and industry-specific plans. The long-term policies, such as the New Economic Policy (NEP, 1971–1990), National Development Policy (NDP, 1991–2000), National Vision Policy (NVP, 2001–2010), and New Economic Model (NEM) formed the long-term vision and benchmark for the other plans and policies. Laying the groundwork for some

of the policies was also Vision 2020, presented in 1991 by then Prime Minister, Tun Dr. Mahathir Mohamed, on his aspirations for Malaysia to become a developed nation by the year 2020. More specific five-year plans have also been consistently produced, the latest being the 11th Malaysia Plan which represents the final leg towards Vision 2020. In addition, there were special documents prepared in unexpected circumstances to address specific issues, such as the National Economic Recovery Plan (1998) that guided Malaysia's recovery through the Asian financial crisis, and other plans such as the Industrial Master Plans, the Privatization Master Plan and the Financial Sector Blueprint (2011-2020). More details on the evolution of Malaysia's development planning are outlined in Section 4.

3. How Planning Works in Malaysia

Implementing an effective and efficient planning system requires that a number of conditions be in place, the primary ones being: assignment of responsibility for the quality of planning; methodological and informational support (i.e. data); strategic focus on institutional changes and reforms; reflection of the global agenda and economic trends in national planning documents; and involvement of the principal stakeholders in the process of shaping and implementing the plans. This section describes the institutional architecture and processes at work in Malaysia's planning system.

Malaysia has never practiced "imperative" central planning but, instead, adopted the French approach to indicative planning.[3] Broad directions are set out in the plan that may then have to be operationalized though legislative, fiscal and other policy measures. Development policy in Malaysia has consistently been guided by several parameters. First, the country is a federation made up of 13 states and 3 federal territories (Kuala Lumpur, Labuan and Putrajaya). Constitutionally, states have jurisdiction over certain aspects of governance that place limits on the reach and activities of the federal government. Planning

[3] **Indicative planning** is a form of economic planning implemented by a state in an effort to solve the problem of imperfect information in market and mixed economies so as to increase economic performance. It is sometimes referred to as **planning by inducement** as the plan is used to signal investment priorities and opportunities to the private sector and is linked to and supported by a framework of fiscal and other incentives and investment allowances aimed at inducing private investment in the targeted sectors. **Imperative planning**, on the other hand, is usually associated with a "command economy" in which the public sector is the dominant economic actor and the market is not free.

needs to take account of the concerns and aspirations of both state and federal levels. Second, despite its impressive growth over the years, Malaysia is a small open economy, accounting for only 0.7 percent of global GDP. Trade accounts for 130 percent of GDP, which is a sign of its openness to external influences. Third, it is also a mixed economy in which the private sector is viewed as the engine of growth while the public sector's role is to facilitate development and support the private sector while ensuring the achievement of the nation's socio-economic objectives.[4] These socio-economic objectives have typically focused on promoting quality, balanced and inclusive growth. This points to the fourth parameter, which is more of a guiding principle: Malaysia is a multi-ethnic society comprising three main ethnic groups and two major indigenous groups, referred to as the *Bumiputera*. Particularly after the 1969 "racial tensions", the Malaysian government set its notion that economic growth is not an end in itself but, rather, a means to bring prosperity and a better quality of life to all segments of the society.[5] The philosophy of "growth with equity", then, has always been the fundamental principle underpinning the Malaysian approach to development policy and planning, and the development targets set are not purely economic ones, but also socio-economic (see Box 1 below).

[4] Economic Planning Unit (2004). 'Development Planning in Malaysia.' Putrajaya: EPU, Prime Minister's Department (p. 2).
[5] Ibid.

Box 1. The Goal of Poverty Eradication

Poverty eradication has been a focus of development planning in Malaysia since the 1970s and was first highlighted as a clear policy goal in the New Economic Policy (NEP). In the NEP, poverty eradication, irrespective of race, was highlighted as an integral part of the twenty-year plan, forming one of the two prongs of the strategy to achieve the main objective of national unity. Subsequently, Vision 2020, which was formulated in 1991 aimed to move all Malaysians above the absolute poverty line. The National Development Plan (NDP), 1991-2000, which encapsulated this vision and succeeded the NEP, continued to place a strong importance on poverty reduction, but shifted the strategy towards targeting hardcore poverty and reducing relative poverty. The poverty eradication goals outlined in the long-term plans were further shaped, coordinated and encapsulated in Malaysia's mid- and short-term development plans, such as the five-year plans.

Overall, Malaysia's strategies for poverty reduction focused mainly on providing opportunities to the poor for participation in gainful employment or higher value-added activity. This, allowed the poor to self-support and increase their incomes. Among the initiatives in this direction include assistance to increase productivity, modernize production processes and diversify income, and tailored assistance to the hardcore poor such as employment assistance, food supplements and educational support. Other more indirect measures to eradicate poverty include the increased provision of infrastructure and social amenities, notably the expansion of public education and primary health services, housing initiatives and roads, the maintenance of stable prices for basic household items, land reform and ownership schemes, and the encouragement of private sector and NGO participation in poverty reduction initiatives.

Malaysia's poverty reduction outcomes have been significant, due to sustained economic growth and the continued implementation of planned initiatives. Poverty reduction, as a prominent feature in Malaysia's development planning since the 1970s, has always been pragmatically designed within the context of strong and sustained economic growth. As a result, Malaysia's progress in alleviating poverty can be largely attributed to the robust average annual real GDP growth rate of 6.2 percent from 1972 – 2016, as well as the multitude of poverty reduction measures that have been undertaken in those four decades. Since the inception of the NEP, Malaysia's poverty rate has significantly declined from 49.3% in 1970 to 8.5% in 1999, and to only 0.6% in 2014. The income distribution of households has also shifted, with the income share of the Top 20% declining from 55.7% in 1970 to 46.6% in 2014, while that of the Bottom 40% has increased from 11.5% to 16.5. Income inequality has also narrowed, with the Gini coefficient shrinking from 0.513 in 1970 to 0.401 in 2014[6].

Significant progress has also been made in other aspects of poverty reduction and wellbeing, such as access to basic amenities, life expectancy and literacy. The measure of poverty is multidimensional and extends beyond income to more qualitative measures of economic and social wellbeing. Malaysia's life expectancy at birth, for example, increased sharply from 64.2 years in 1970 to 74.8 years in 2015. During the same period, the infant mortality rate declined from 39.4 to 6.2 per 1,000 live births. The literacy rate climbed from 58 percent to 94.7 percent over the same period, while the population to doctor ratio fell from 4,493 to 656. In 1970, only 48.0 percent of houses had treated water and only 44 percent had electricity. In 2015, these percentages have risen to 95.1 and 99.9 percent, respectively[7].

Recent plans have reoriented the poverty eradication strategy to elevating the household incomes of the Bottom 40% and undertaking more targeted measures. In a 2005 report by the UN[8] on Malaysia's successes in achieving the Millennium Development Goals (MDGs), possible future directions were outlined in view of

[6] Source: "Household Income and Basic Amenities Survey Report" published in June 2015 by the Department of Statistics, Malaysia.
[7] Source: Economic Planning Unit, Prime Minister's Department, Malaysia.
[8] United Nations (2005). "Malaysia: Achieving the Millennium Development Goals, Success and Challenges". Available at https://www.unicef.org/malaysia/Malaysia_Achieving_the_Millenium_development_Goals-_success_and_challenges.pdf. (p. 63)

the progress that has already been made. Among them was the increasing need to lower income inequality, as the Bottom 40% (B40) of households still held only a small share of income, and the importance of targeted interventions in the future, when economic growth is no longer likely to have a significant impact on the hardcore poor. In this direction, the 10th and 11th Malaysia Plans reoriented the poverty eradication strategy, focusing on elevating the incomes of the B40 households and improving the quality of life for the poor. In addition, more targeted measures were outlined, including targeted transfers such as the BR1M[9], the provision of entrepreneurship support, education, skills training, investment incentives and wealth ownership schemes for B40 households. Measures under the 10th Malaysian Plan, which spanned 2010-2015, succeeded in elevating the B40 mean monthly income from RM1440 in 2009 to RM 2,537 in 2014[10].

Source: EPU (2004)

Date source: Economic Planning Unit & Department of Statistics, Malaysia (http://www.epu.gov.my/en/socio-economic/household-income-poverty)

Institutional Architecture

At the apex of the national planning machinery is the National Planning Council (NPC), made up of Cabinet ministers who are responsible for the key economic ministries. The NPC is chaired by the Prime Minister and ultimately has the responsibility for what is included in the development plans. At the level of senior officials, the National Development Planning Committee (NDPC) is the main institutional locus for planning in Malaysia, with key center of government agencies represented among its members. Chaired by the Chief Secretary to the Government, who is the most senior civil servant, the NDPC includes senior officials (i.e. Directors-General and Secretaries-General) from the EPU, the Ministry of Finance (MoF), the Central Bank and the Department of Statistics Malaysia (DOSM). Senior officials from other central agencies and line ministries also attend NDPC meetings. NDPC is the main platform where senior official meet to discuss the formulation and implementation of the 5-year development plans, and is a clearing house for new initiatives and resolution of any disagreements between ministries, departments and agencies.

The EPU remains the main central agency for national development planning. As a unit under the Prime Minister's Department, EPU serves as the secretariat for NDPC. Being under

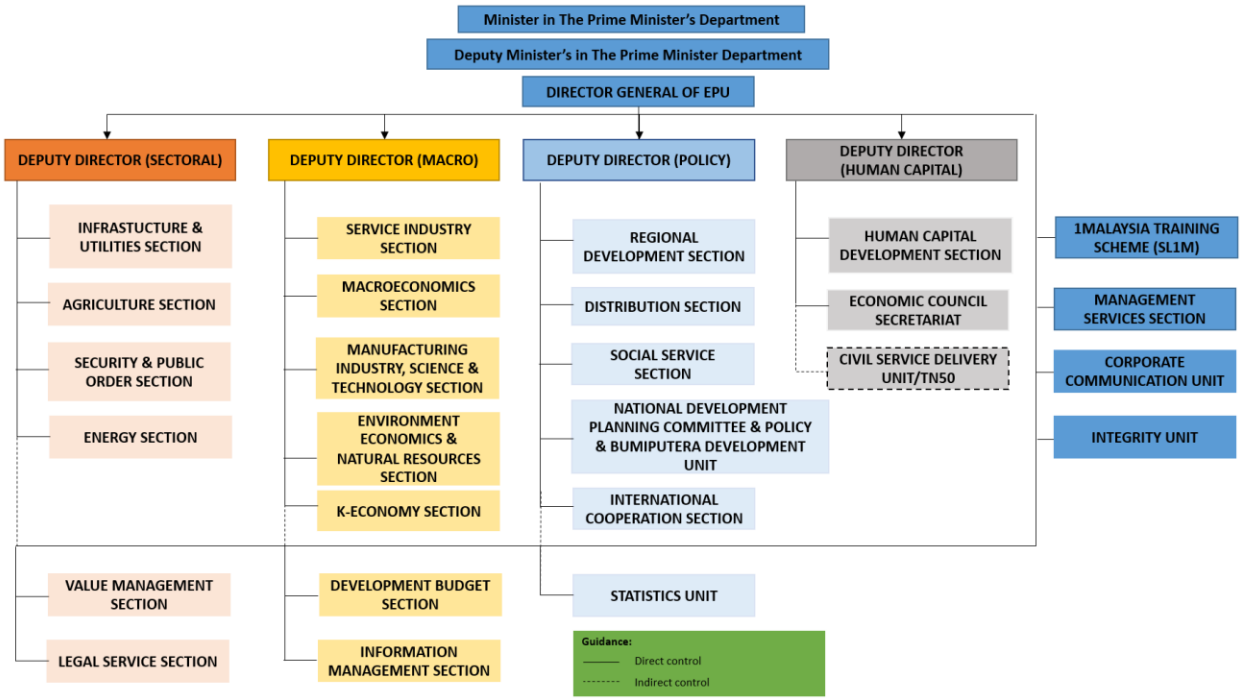
[9] *Bantuan Rakyat 1 Malaysia* (BR1M) is a targeted cash transfer introduced by the Government in 2012 for households earning below RM4000 per month.

[10] Figures refer to nominal household income and have not been adjusted for inflation. Sourced from the "Household Income and Basic Amenities Survey Report" published in June 2015 by the Department of Statistics, Malaysia.

the Prime Minister's Department provides EPU with the mandate, authority and resources to perform its role as the agency for development planning coordination. As earlier mentioned, it was following a World Bank mission in 1955 that the formation of an Economic Secretariat to undertake planning for the economy was recommended, and this Secretariat was the genesis of EPU. It was only by the 1960s that development planning became centralized at the federal level. Prior to that, some states also undertook their own economic planning. Centralization was deemed necessary for better coordination of policy measures to achieve the national economic and social objectives.

In terms of organizational structure, the EPU today comprises 20 Sections and 4 Sub-Sections, and has an establishment of 460 made up of professional officers and support staff. It is overseen by a Director-General, a high-ranking government official, who reports to a Minister in the Prime Minister's Department. There are four Deputy Directors-General, each responsible for a major area of EPU's work: Sectoral, Macro, Policy and Human Capital. EPU's organization chart is shown below in Figure 1.

Figure 1. EPU's Organization Chart



Source: Economic Planning Unit, Prime Minister's Department, Malaysia

The EPU is at the heart of Malaysia's planning system and is the agency responsible for ensuring the quality and integrity of the planning process, as well as the quality of the plan itself. It not only leads the preparation of the plan but also carries out the analysis that informs the deliberations of the NDPC and other special planning bodies. EPU, serving as the secretariat for the NDPC, is in a privileged position in relation to the overall planning function.

An especially critical aspect of EPU's mandate is its responsibility for the preparation of the development (capital) budget under the Development Fund Act (1966). There are clear lines of responsibility between the operating budget, which is prepared by the Ministry of Finance (MoF) in accordance with the provisions of the Financial Procedures Act (1957), and the development budget, which is prepared by EPU. While ministries, departments and other government entities are expected to prepare their projects and programs, EPU is responsible for ensuring their consistency with the development plan and setting the ceilings for new projects. The budgets for programs and projects are allocated on two-year rolling plan cycles, with annual reviews to ensure the linkage between planning and implementation. Changes or cost variations to ongoing projects have to be referred back to EPU's Development Budget Section for review and clearance. This obviously entails very close cooperation and collaboration between EPU and the MoF in coordinating both the development and operational budgets. Recognizing the challenges that arise from this, there have been several reforms through the years to improve the process of development budgeting and to ensure better linkages between national strategies and the budget process (e.g. the adoption of the Outcome-based Budgeting approach), as well as the introduction of a Value Management tool. These initiatives are described in more detail in Section 4 of this note.

Additional economic decision-making bodies were created in response to the Asian financial crisis of 1997 and the global financial crisis of 2008. While the main format of the NDPC remains unchanged since inception, the Asian and global financial crises provided the impetus to create additional economic advisory or decision-making fora to respond to

economic downturn more rapidly and efficiently. The Economic Council (EC)[11], for example, was a special Cabinet Committee created in 2008 in response to the impact of the global economic slowdown on Malaysia. The EC has since focused on formulating economic policy to address the current economic scenario, among others, which sometimes get absorbed into the five-year plans and the national budgets.

The renewed focus on regional economic development in the mid-2000s saw the creation of the Regional Economic Development Authorities. Initially, planning in Malaysia was undertaken at both the federal and state (subnational) levels, both of which is coordinated through the NDPC. EPU also coordinates with the state economic planning authorities. The presence of the new Economic Corridor Authorities means that there are additional stakeholders in the planning process who also provide bottom up input on economic and social priorities of development planning from the sub-national level (see Box 2).

Box 2. Regional Development Corridors

Since its independence, Malaysia has pursued balanced socio-economic development across the country, while seeking to advance economic growth. As a newly-independent nation, Malaysia inherited many challenges that stemmed from racial imbalances, geographically uneven development and a fast-growing population. These imbalances were further accentuated when Sabah and Sarawak joined the Peninsula to form the Malaysian Federation in 1963. Consequently, policy-makers have channeled a lot of efforts into closing the income gaps and levelling the playing field. As the economy grew and the country's urban population and income levels rose, the need for more targeted development measures became crucial to ensure a fair and equal income distribution. Over the years, the strategy for area development has shifted from a heavy emphasis on rural development to a focus on regional development, as policy-makers gained a deeper understanding of the relationship between geography and economic growth.

In 2006, the government introduced and launched five regional economic growth corridors as part of the 9th MP. The launch marked the first clear conceptualization of regional development that transcended state boundaries, and the government's role in promoting it. The objective of the corridor development strategy was to elevate the living standards of the regions and promote an even socio-economic development across the country. The new approach changed the Government's role in regional development from a geographical distribution of wealth to assisting regions in harnessing their strengths for growth. It also shifted focus away

[11] Initially known as the National Economic Action Council (NEAC).

from already highly-developed locations like Kuala Lumpur, allowing for less-developed areas to grow and investment to refocus in rural locations.

Malaysia has five regional corridors. Three of them, Iskandar Malaysia (IM), the Northern Corridor Economic Region (NCER) and the East Coast Economic Region (ECER) are located in the Peninsula, while the other two, the Sabah Development Corridor (SDC) and Sarawak Corridor of Renewable Energy (SCORE) are located in East Malaysia. To oversee each regional corridor and implement the corridor development plan, Corridor Development Authorities (CDAs) were established, supported by the Corridor Development Corporation in overall investment promotion. The Government also directly supports the corridors by investing in projects financially.

Thus far, the corridors have made commendable progress in accumulating investments and creating jobs. Some corridors, however have advanced faster than others. Iskandar Malaysia, for example, accumulated RM222.55 billion in investments, more than half of which have been realized, far exceeding its targeted investment of RM149 billion in 2016. The ECER, having accumulated close to RM101 billion in investments, is also close to hitting its targets. SCORE, however has been slower in terms of meeting its investment targets, with only 10% of its target achieved since inception (see Annex 2 for progress of regional corridors)[12].

The 10th and 11th MPs further developed and strengthened the functions of the regional development corridors. The 10th MP sought to accelerate the development of the regions by focusing on high-density clusters in each corridor that were outlined based on its sectoral and geographical advantages. The clusters enable firms to leverage on common resources, facilitates knowledge-sharing and eases the flow of labor within them (see Annex 3 for high-density clusters and focus areas identified in the 10th MP). The 11th MP promised a strategic review of the corridors' master plans and priorities, while accelerating investments through enhancing investor facilitation, improving connectivity and increasing research and development. The 11th MP also outlined initiatives to invest in developing cities, alongside regional corridors to promote broader national development and maximize spillovers for local communities.

While Malaysia has made great strides in regional development, it is still finding its way in improving and fine-tuning its strategies. Since the launch of the corridors in the 9th MP, the corridor policy has not always progressed smoothly. Some corridors have flourished, surpassing targets and expectations, while others have lagged behind due to region-specific factors such as size, location, political dynamics or resource constraints. Going forward, several challenges remain, including the need to evenly and consistently attract investments and create jobs across the regions and development projects, and to maximize spillovers across cities and regions. Despite this, the regional corridors continue to attract significant investor interest and still have time to fully realize the economic benefits and spillovers from the connectivity, ecosystems and

[12] Source: MIDA (2016)

support that have and have yet to be developed. As some of the corridors are only halfway through their implementation periods, it may be too early to assess the real impact of the corridor policy.

Sources: Hutchinson (2016), MIDA (2016)

Connecting National Visions and Plans

As alluded to earlier, development planning in Malaysia has a three-tiered time horizon covering the long-, medium- and short-term. Over the long-term, there have been a number of Outline Perspective Plans, typically with a ten- or twenty-year time horizon. The New Economic Policy (1971-1990), the National Development Policy (1991-2000), Vision 2020 (1991-2020) and the New Economic Model (2011-20) have run at times sequentially, at times in parallel. The National Transformation 2050 (TN50) will be the successor to the Vision 2020. Throughout this time, a series of five-year development plans has provided the medium-term planning framework intended to operationalize the long-term visions. The third tier is the annual budget, which elaborates on specific policies, strategies, programs and projects, and allocates resources for their implementation. Figure 3 depicts the three-tier planning horizon in use in Malaysia.

The year 1991 appears to have been a watershed year for Malaysia's planning. In that year, Prime Minister Mahathir launched his Vision 2020, a powerful vision that promised to take Malaysia to developed country status over a period 30 years. The focus was on the total development of the Malaysian citizen and society – economically, politically, socially, spiritually, psychologically and culturally. This was later supplemented by the National Transformation Program (2011-20), that would lead to a high-income, inclusive and sustainable nation. The six 5-year development plans covering the entire period (from the 6th to 11th Malaysia Plans) were intended to break the long-term vision into do-able, implementable, incremental steps. There have also been telling shifts in format and style of presentation over the years, with the 10th Malaysia Plan veering towards the a more dynamic and succinct presentation style, including budget lines and a less rigid list of projects compared with earlier plans.

Figure 2. Three-tiered Planning Horizon in Malaysia

Source: Economic Planning Unit, Prime Minister's Department, Malaysia

Inter-Ministerial Coordination

The Malaysian approach to planning has been described as top down, bottom-up. The formulation of the development plan entails a considerable amount of coordination among government ministries, departments and agencies, as well as outside stakeholders. In addition, in the case of Malaysia, there is a separate planning machinery at the state level, which requires an additional layer of coordination. The process of plan preparation is initiated by a call circular issued by EPU inviting ministries, departments and agencies to participate in the planning process and outlining the inputs required and timing of the inputs (see Annex 1 for an example of a call circular used to initiate the 11th Malaysia Plan).

Federal as well as state-level bodies are invited to participate in Inter-Agency Planning Groups (IAPGs) and technical working groups (TWGs) organized along thematic or sectoral lines. In the preparation of the 8th Malaysia Plan, there were a total of 25 IAPGs covering a range of issues such as macroeconomics, human resources, poverty eradication, industrial development, science and technology, transportation, utilities and social development. By

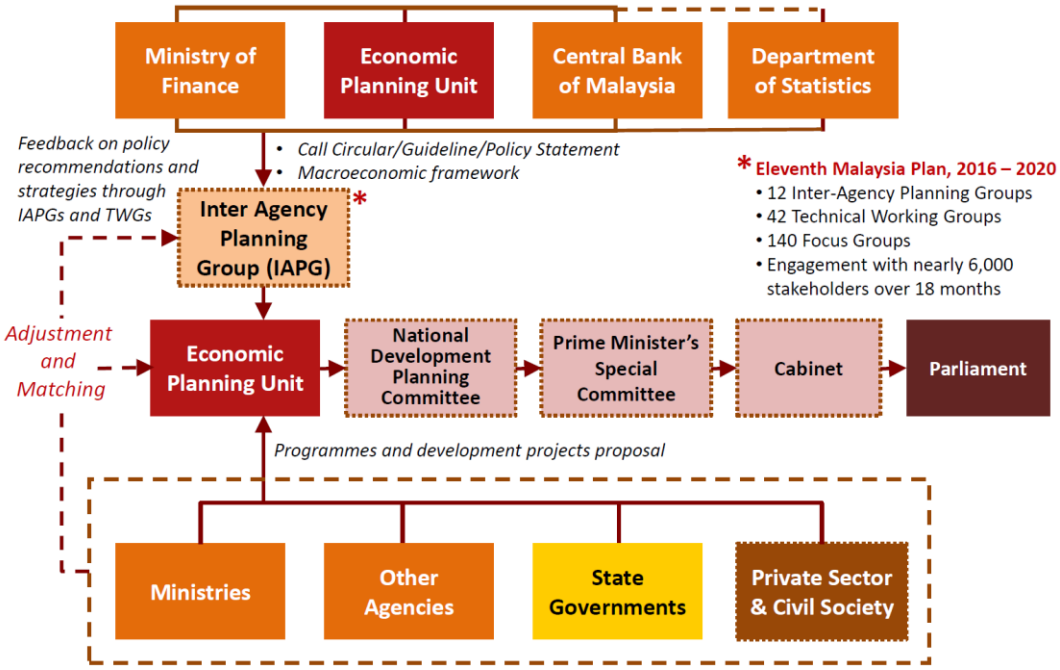
the time of the 11th Malaysia Plan's preparation, the number of IAPGs had been reduced to 12, but there were, in addition, as many as 42 technical working groups, 140 focus groups and an extensive effort at engagement with civil society - non-governmental organizations, academia and the private sector – involving as many as 6,000 stakeholders over an 18-month period. On the issue of human capital alone, there were four technical working groups and as many as 40 focus groups. Figure 3 depicts the relationship between the various bodies involved in Malaysia's planning process.

Stakeholder Consultation and Input

The IAPGs, TWGs and Focus Groups have been the main channels of stakeholder consultations with the private sector and civil society groups when formulating the Malaysia Plans. Feedback and policy recommendations via these channels are considered, adjusted and matched to overall strategies by the EPU in the development planning process. For the 11th Malaysia Plan, EPU also collaborated with the relevant agencies that developed more focused plans in other areas, such as the services and logistics sectors[13], to ensure that the goals and strategies in these areas are encapsulated in the broader five-year plan.

[13] Plans in more focused areas have also been developed by the relevant agencies. Examples of these are the Services Sector Blueprint, the Logistics and Trade Facilitation Masterplan and the Sustainable Consumption and Production Blueprint.

Figure 3. Institutional Planning Mechanism



Source: Economic Planning Unit, Prime Minister's Department, Malaysia

In addition, the Government also seeks stakeholder feedback via other platforms, such as EPU's website (during Mid-term reviews) and through the 1Malaysia Call Centre, an initiative launched in 2012 to provide a single platform for Malaysians to voice any enquiry, dissatisfaction or feedback. For the upcoming National Transformation 2050 (TN50) plan, the Government has provided platforms for youths to voice their aspirations for the plan through conversation series and dialogues.

Planning and Budgeting

Malaysia practices a dual budgeting system, whereby the Development Expenditure (DE) is prepared by EPU in line with its lead role in development planning, and the Operating Expenditure (OE) comes under the Ministry of Finance (MoF). For every five-year plan, EPU determines the ceiling for sectoral development expenditure based on a general DE allocation, and ensures that the projects proposed by the ministries, departments and other government entities are consistent with the development plan and within the project ceilings. The DE amount is estimated with consultation and feedback from the Ministry of

Finance. Annually, EPU also provides input to the annual budget process, led by the Ministry of Finance.

At the project selection stage, EPU assesses project proposals submitted by government entities based on the sectoral ceilings it has set. At the plan preparation stage, the Call Circular issued by EPU invites government entities and statutory bodies to identify new or continuing projects to be implemented, and to bid for the necessary funds to carry them out. The Sectoral Division of EPU assesses the project proposals based on the budget ceilings allocated for each sector, and prioritizes them in line with the national development goals and sound public finance management practices. Among the criteria used in this project appraisal process are project viability, growth promotion, social needs, project stage, location and poverty eradication prospects.

The budget for prioritized projects is discussed amongst EPU, the MoF and other relevant agencies, before a project list is assembled and submitted to MOF. MOF tables both operating and development expenditure in Parliament for approval. Upon receipt of the project submissions, the committee assesses and prioritizes the proposals by ministry. The committee, comprising the Sectoral Section of EPU, MoF, the Implementation and Coordination Unit (ICU), Public Service Department, technical agencies such as Federal Department of Town/Country Planning and Public Works Department, and the ministries or agencies concerned. The committee evaluates targets, concepts and programs proposed, and determines the overall objectives, scope and costs of each program. The list of projects is then discussed at the EPU's top management Budget Examination Committee, chaired by the EPU Director General, for project funding. The project lists are then consolidated and examined, and there is typically some reallocation of the development budget among sectors based on the priority and the quality of projects submitted. The final list of projects is submitted to MoF for Parliamentary approval.

Monitoring and Implementation of Plan

The coordination, monitoring, evaluation and implementation of the national development plans are undertaken by the Implementation and Coordination Unit (ICU). The ICU's role is to ensure that planned projects are executed effectively and efficiently, within the allocated

time and budget. The ICU utilizes a Project Monitoring System (SPPII), which is an IT-based monitoring tool, to monitor and evaluate all of the projects under Malaysia's five-year development plans. Using this tool, the ICU is able to assess the impact and outcomes of the projects implemented to ensure that their progress is in line with national planning objectives. The analysis and impact studies produced by the ICU allow for reflection on the Government's implementation capacity and the design of better plans and projects in the future.

4. Evolution of the Planning Process

Development planning in Malaysia has evolved over the years in response to the priorities in its economic transition phase as well as developments in the global economy. To be an effective policy tool, the medium-term planning framework has also evolved through the years. Realism and pragmatism have shaped the characteristics of Malaysia's development planning process. The evolution of development planning can be seen in several areas.

Policies

Medium-term planning remains one of key tools used to realize the different policy goals of the country, both domestically and in response to external global developments. During the immediate post-independence period between 1957 to 1970, Malaysia operated what was essentially laissez-faire economy, and its first planning efforts focused on public investment for the building of a new nation, with some attention to rural development. It was not until 1971 – after the racial tensions of 1969 – that planning started to focus on growth with equitable distribution. Between 1971 and 1990, while planning was being used to promote growth in different economic sectors, poverty eradication and income distribution were key policy objectives permeating the medium-term plans.

While maintaining its focus on growth, distribution and poverty eradication, planning was also used to support the goal of economic expansion. This includes the industrialization plans (e.g. manufacturing, heavy industries) in the 1980s, development of the ICT sector (e.g. the Multimedia Super Corridor (MSC) Malaysia) in the 1990s, and the services sector in the 2000s. The 1980s marked the start of Malaysia's push towards industrialization. Planning

focused on the development of physical infrastructure such as industrial parks, roads, transportation networks and utilities required to support the targeted industries for growth (e.g. manufacturing, exports of electrical and electronics), as well as to attract FDI. In the 1990s, in response to the global trends which centered on supply chains, efforts were concentrated on connectivity, including the development of the ICT sector. In the 2000s, as the focus was on moving up the chain, the development of the services industry drew the attention of national planners. The late 2000s also saw the planning machinery being used to operationalize the National Transformation Program (NTP) and New Economic Model (NEM), focusing on transforming Malaysia into a high-income, advanced country.

Despite criticism from both the right and the left, Malaysia's plans remain indicative plans, providing the essential signaling of where – as in which sectors or regions - the government would focus its attention for economic development during the planning period. This indication is deemed as an important signal to the private sector, investors and other economic stakeholders. The current 11th Malaysia Plan remains committed to the growth and distribution agenda with additional measures drawn up to address the Bottom 40 household agenda. The current plan for the first time has introduced the term "Game Changers" initiatives, a set of cross-cutting measures required to realize the intended outcomes of the plan. These initiatives include the unlocking of potential for productivity, the uplifting of the bottom 40 percent of households, the enabling of industrial-led technical and vocational training (TVET), green growth, translation of innovation to wealth and investment in competitive cities.

The structure of the Malaysian economy has changed throughout the sixty years of national development planning. It has evolved from an agro-based economy in the 1970s to a manufacturing and services-based economy in 2016. The manufacturing and services industries as a share of GDP increased from 8.8% and 29.2% in 1970, respectively, to 22.8% and 54.1% in 2016. Similarly, export products have also diversified from agriculture-based commodities to manufacturing goods. The value of exports in 2016 was USD 189.5 billion, with manufacturing making up more than 80 percent of exports, and only 1.1% consisting of forestry and rubber products. In contrast, the value of the exports was only at USD 1.7 billion in 1970, with close to half being forestry and rubber goods.

The stakeholder consultation process has broadened and deepened. The Inter-Agency Planning Groups (IAPGs) have remained the main channels of consultations with the private sector and civil society groups for national planning. One of the signs of a broader and deeper consultative process is the number of IAPGs, technical working groups and focus groups being established for the current 11th Malaysia Plan. In addition to the IAPGs, the year 2010 also marked the first time that problem-solving labs were used to discuss and identify potential initiatives that can be rolled out through the 5-year planning mechanism. These problem-solving labs were introduced by the Performance Management and Delivery Unit, PEMANDU. While focused on discussing and conceiving priority measures earmarked under the NTP, the labs also provided channels to engage representatives of industry, the private sector, civil society and academia.

Methodology

The planning machinery has been supplemented with several new approaches and tools throughout the years. The current 11th Malaysia Plan saw the introduction of a new approach called the Malaysian National Development Strategy (MyNDS) which emphasizes the welfare of the people (i.e. people's economy) and the economic growth (capital economy), as prerequisites of achieving the goal of becoming an advanced, high-income society. To realize this, the MyNDS approach was developed to focus on initiatives that are high impact, fast execution and low cost, assessed on the basis of its impact on the people and the economy. To operationalize the MyNDS, an integrated planning framework linking development thrusts to key results areas and national outcomes was developed. A Creativity Index, a National Blue Ocean Strategy[14] tool, is used to assist EPU and line ministries with the identification and selection of development projects. The Creativity Index allows for the evaluation of the implementation cost of projects against their socio-economic impact, and assists ministries in identifying cost-effective projects to be prioritized.

[14] The Malaysian Government applies the Blue Ocean Strategy to national development through the National Blue Ocean Strategy (NBOS), formulated in 2016. The NBOS is available at https://www.blueoceanstrategy.com/malaysia-nbos/.

The focus on outcomes in planning took center stage beginning of 2009, riding on the wave of change brought by the NTP initiatives. The logical framework tool that was used in the identification of development initiatives was further defined and refined with the focus on outcomes. A government circular providing guidance to line ministries on the use of the logical framework to prepare development projects was issued by EPU for the 10th Malaysia Plan (2010 – 2015). The Logical Framework Approach (LFA)[15] is an analytical, management and presentational tool that assists planners in logically formulating initiatives for development. The approach covers problem and stakeholder analysis, and the development of an objective hierarchy to ease the selection of preferred implementation strategies. The LFA also is intended to provide more time for the relevant line ministries to draw up their programs and ensure that the intended outcomes are achieved.

This period also saw the introduction of the Value Management (VM) approach to development projects with a cost value of MYR50 million (USD12 million) and above. The VM is a management tool for project implementation aimed at achieving cost optimization and project functionality. To maximize the benefits of the tool, the VM approach is employed from the early stages of all projects above the MYR50 million thresholds. In addition to ensuring cost efficiency, it also considers other aspects of project functionality, such as the changing needs of the country, energy efficiency, stakeholder requirements and high-quality outcomes.

The Medium Term Fiscal Framework (MTFF) and adoption of the new performance budgeting system - Outcome Based Budgeting (OBB) - are recent reforms that have taken place in parallel to the development planning process. The MTFF is a medium-term approach of budgeting that sets out the proposed overall budget and its allocations across ministries or sectors and allows for better prioritization of expenditures. The framework is developed using the government's medium-term revenue and expenditure projections and fiscal targets, allowing the government to plan, review and adjust accordingly, should the projections indicate fiscal space or constraints. In 2010, the government also adopted a new

[15] Economic Planning Unit (2010). 'Handbook for Logical Framework Analysis.' Available at http://www.epu.gov.my/sites/default/files/Handbook%20For%20Logical%20Framework%20Analysis.pdf

performance-based budgeting system, called the Outcome Based Budgeting (OBB), that supplemented the development planning methodology by ensuring linkages between the national strategic planning and budgeting processes are strengthened. The OBB, which uses a common framework for outcomes, provides a more transparent and strategic view of the budget, and enables better cross-ministry collaboration in achieving high-level results.

Project monitoring was further strengthened with the introduction of the Project Monitoring System (SPPII). As mentioned above, the ICU introduced the SPPII project monitoring system in 1999 as an IT based monitoring tool for expenditure performance and physical progress of development projects. The SPPII is one of the seven flagships of Malaysia's Electronic Government initiative and has enabled the monitoring of physical projects to evolve from a manual to an automated approach. Its objective is to monitor and support the life cycles of all programs under Malaysia's five-year development plans, while ensuring that they are implemented within the allocated time frame and budget. The SPPII also facilitates agencies in performing outcome analysis, based on their outcome-based evaluation module, in ensuring projects achieve their outlined objectives, are cost-effective and sustainable.

In the 10th MP, the two-year rolling plan approach was adopted to enable greater flexibility in selecting and managing projects. This gives the government space to respond to changing priorities or unexpected shocks as they occur. With this approach, government commits funding for approved projects for a two-year rolling plan period, and this is accounted for under the Development Expenditure. Before the rolling plan was introduced, all projects were budgeted for under the Development Expenditure for the MP's five-year period, limiting flexibility for new projects to be considered and approved on an annual basis.

5. Issues, Challenges and Lessons Learned

This primer has attempted to highlight, in a highly selective manner, some of the key features of Malaysia's planning system. From the first development plan in the 1950s to the 11th Malaysia Plan, there seems to have been a conviction, first of all, that planning works for the country and is a worthwhile endeavor. The country stands out among its peers for having a comprehensive approach to planning that it has followed consistently over a long period of over 60 years. There have undoubtedly been challenges along the way that have called on the authorities to be flexible, to adapt to changing conditions/circumstances, and to innovate. Such circumstances arose, for instance, in the wake of the racial tensions in 1969 that resulted in a significant re-focusing of planning towards economic empowerment and wealth redistribution; or during the 1998 Asian financial crisis when the need was felt to create parallel structures in the form of the NEAC initially and later the EC, with members drawn from both the public and private sectors, aimed at circumventing the bureaucracy and making speedier decisions.

A major issue facing development planners worldwide is the gap between the plan and implementation. Malaysia is no exception. Typically, this gap results when there is a disconnect between planning, on the one hand, and budgeting on the other, so that projects, programs and priorities identified in the plan are starved of resources to carry them out. This may be caused by factors beyond the control of EPU or the Ministry of Finance as, for example, with the implementation of the 5th Malaysia Plan when the collapse in oil prices during the mid-1980s meant that the notional allocations contained in the plan were never backed by actual resources, resulting in under-performance in the achievement of targets. Conversely, there have been examples where the actual DE has exceeded estimates due to the inclusion of projects not contained in the original plan. Despite these situations, the Malaysia case illustrates the importance of linking the plan directly to the budget; the EPU has the legal mandate to allocate the Development Expenditure (i.e. capital budget), which puts them in a strong position to ensure that priority projects and programs identified in the plan receive adequate funding. And there have been additional institutional, data, and monitoring and evaluation innovations to check on value for money.

The public administration aspects of implementing large, complex strategies like the five-year plans for an almost high-income country like Malaysia are rather different today from even 20 years ago and can prove challenging. Over its sixty years of experience with development planning, much has been achieved but the level of complexity involved in implementing projects and programs has tested the government's institutional capacity for implementation. Like other similarly-placed countries, Malaysia often struggles to transition to service delivery systems to accommodate these larger and more complex demands. It underscores the importance of constantly upgrading capacity and ensuring that the bureaucracy is actually able to deliver on plan objectives.

The extent of the consultative process involved in the Malaysian planning system appears to have grown over the years as well, becoming broader (in terms of the number and type of groups consulted) to deeper (in terms of the intensity of the process). As the primer showed, although the number of IAPGs went down for the preparation of the 11th Malaysia Plan, there were far more – and more robust – consultative efforts involving a wide cross-section of the society. This can only help strengthen the planning process, as well as the plan itself, as the private sector and civil society groups are brought more squarely into the consultations.

The format of the plan itself has undergone some changes. The 10th Malaysia Plan was a significant departure compared to previous plans in terms of presentation, with more emphasis on its visual appeal through use of bullet points and less dense paragraphs. The visual appeal of the document is intended to stimulate a wider readership among citizens, particularly in light of the better-educated, more engaged population compared with an earlier period. The 11th Malaysia Plan continues in this vein.

The 11th Malaysia Plan identified several challenges ahead, both on the global and domestic fronts. External factors such as the low oil prices, commodities and economic slowdown in major trading partners, in addition to the domestic factors such as the need to boost productivity and maintain an inclusive economic growth and distribution approach remains an ongoing challenge to planning. In its effort to address some of these challenges, planning officials see the current 11th Malaysia plan as a major crossroad in the country's medium-term planning which requires critical policy shifts and out-of-the-box approaches to realize

the development goals in the next 5 years. As mentioned in the earlier sections, these critical policy shifts and approaches came in the form of the introduction of 6 Game Changers, which are cross-cutting but interrelated measures required to further boost the growth trajectory. Implementation of the Game Changers would require greater coordination - not just different ministries and agencies, but also with other stakeholders involved in the policy. It would also entail the ability to effectively prioritize the different policy options and measures.

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Annex 1: Call Circular for the 11th Malaysia Plan (Unofficial Translation)

UPE(S)12-11/14/5
FOR IMMEDIATE ACTION

GUIDELINE ON THE PLANNING AND PREPARATION OF THE ELEVENTH MALAYSIA PLAN, 2016-2020: ECONOMIC PROSPECTS, STRATEGIC THRUSTS AND PREPARATION OF DEVELOPMENT PROJECTS

Purpose

The purpose of this Guideline is to:

provide an overview of the economic prospects during the period of the Eleventh Malaysia Plan, 2016-2020 (11thMP);

outline the 11thMP's strategic thrusts towards achieving an advanced high-income nation status by 2020; and

provide guidance to ministries, state governments and statutory bodies on the submission of their project proposals for the period of 2016-2017 under the 11thMP.

11thMP Economic Prospects

The Malaysian economy is expected to continue registering strong growth in the period of the 10thMalaysia Plan, 2011-2015 (10thMP). From 2011 to 2013, real Gross Domestic Product (GDP) recorded an average growth rate of 5.2 per cent per annum. The rate of growth reflects a resilient economy amid a world economy gradually recovering from the effects of the global financial crisis in 2009. Based on the expected growth for the years of 2014 and 2015 stated in the 2015 Budget which was tabled in October 2014, the GDP's annual growth rate throughout the entire period of 10thMP would average to 5.3 per cent per annum. Toward the end of the 10thMP, the country's per capita income at current prices is expected to rise close to RM37,500 (or US$11,600), which represents an increase of 6.8 per cent per annum. Against the backdrop of such robust economic expansion, the *rakyat* will enjoy increased prosperity in various aspects.

The 11thMP is the final phase in the five-year plan towards achieving Vision 2020 to lift Malaysia into the league of developed and high-income nations by 2020. In this respect, 11thMP is crucial in ensuring that this goal is fully realized. To achieve this, during the span of 11thMP, real GDP needs to grow between 5-6 per cent per annum in line with the long-term economic growth targeted. Backed against this growth rate, Malaysia's Gross National Income (GNI) per capita is expected to surpass the target of US$15,000 by 2020, which is the World Bank's GNI per capita threshold for a high-income economy. The potential for this expansion hinges on a marked increase in levels of productivity and innovation.

An economic growth spurred by a stronger balance between the domestic and external sectors will foster the economy's resilience. The domestic sector will be driven by more robust private investment, supported by a knowledge-based modern services sector and a manufacturing sector capable of producing more complex and diversified products, thereby increasing its competitive edge in the global market. Prices are expected to remain stable and low, with full and gainful employment expected throughout this period. This way, the prosperity of the *rakyat*, especially the bottom 40% household income group, will rise so they will not miss out on the opportunities that come with national prosperity.

To ensure that these economic growth targets are achieved, some of the most key challenges must be addressed:

almost half of the nation's households are still trapped in the low income bracket;

the standards of innovation and productivity are still low, which hinders the country's competitiveness with respect to the export sector in the global market;

various labour market issues such as insufficient creation of high-income jobs, lack of high-skilled workers to meet industry's demands, and dependence on low-skilled foreign workers, affect the nation's economic growth potential and slows down the rate of wage increase for workers;

the Federal Government's fiscal position which is still in deficit has given little room to the government to come up with policies to better deal with economic shocks and other impacts of an increasingly volatile world economic cycle; and
the need to preserve the quality of the environment and natural resources through sustainably managed development.

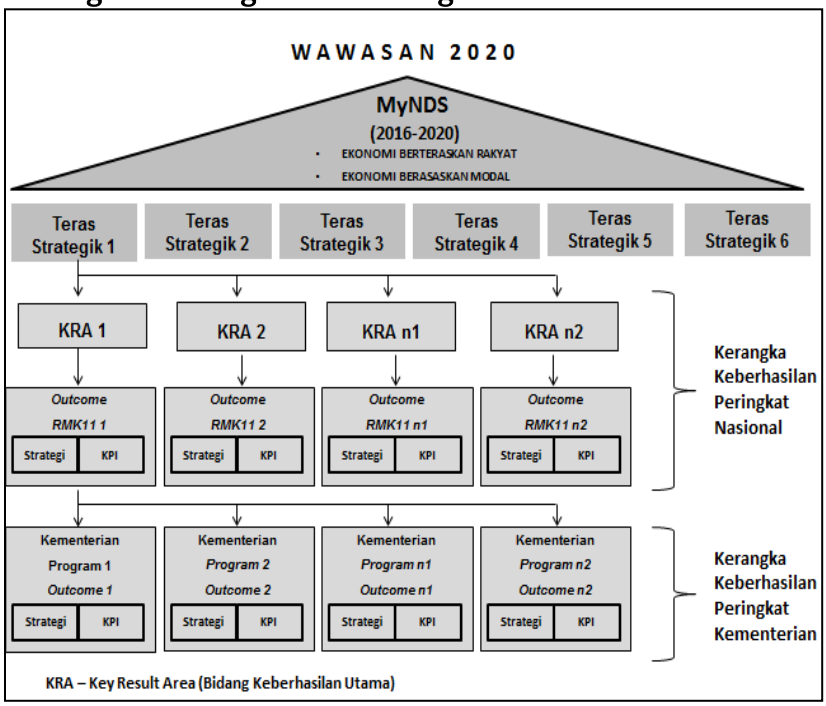
In view of the above challenges, the strategic thrusts under 11thMP are formulated by taking into account the need to strengthen the economic structure, increase household income, encourage sustainable use of economic resources and ensure the wellbeing and unity of the *rakya*t so the country is able to realize its development objectives by 2020.

11th MP Strategic Thrusts

11th MP will implement a new approach known as the Malaysian National Development Strategy (MyNDS). MyNDS is built upon people economy which focuses on boosting the wellbeing of the *rakyat* and capital economy which focuses on achieving high income. MyNDS will focus on **initiatives which create high impact on both of these thrusts with fast execution and at low cost to the government (high impact, fast execution and low cost).**

To execute this strategy, an integrated planning framework aligning the strategic thrusts with the key results area and national outcomes has been developed, as shown in **Figure 1**. Ministries, state governments and statutory bodies are required to plan their projects which will contribute directly to national outcome results.

Figure 1: Integrated Planning Framework



To achieve the goals underlined by MyNDS, the 11thMP's integrated development framework is conceptualized with six key strategic thrusts, as follows:

First Thrust : Enhancing Inclusive Development;
Second Thrust : Improving the Wellbeing of *Rakyat*;
Third Thrust : Developing Human Capital;
Fourth Thrust : Pursuing Green Growth;
Fifth Thrust : Strengthening Infrastructure for Growth; and
Sixth Thrust : Reengineering Economic Growth

The first four thrusts under 11thMP will be the foundation of people economy, while the other two thrusts will anchor the fundamentals of the capital economy.

The first thrust, **Enhancing Inclusive Development**, aims to empower the low and middle-income households. The focus of inclusive development will be broadened to include the bottom 40 per cent household income group. Participation of Bumiputera and minority groups in economic activities will be enhanced, rural-urban transformation will be accelerated and community development will be strengthened.

The second thrust, **Improving the Wellbeing of *Rakyat*** will boost and expand healthcare services, provide affordable and quality housing, improve services provided by local authorities, create safe spaces, strengthen national unity and promote sports activities.

The third Thrust, **Developing Human Capital** will transform the nation's human capital development to produce a more professional and high-skilled workforce in order to fulfil the industry's needs in a high-income economy. This in turn will raise the quality and productivity of the workforce to support industry growth and continue to drive transformation of the country's education system based on outcomes targeted.

The fourth Thrust, **Pursuing Green Growth,** will ensure the wellbeing of future generations by focusing on two key aspects: a reinforced commitment to green growth and continuous growth through sustainable use of resources. The first aspect focuses on sustainable consumption and production as well as disaster risk management. The second aspect will ensure continuous growth through sustainable use of resources by focusing on investment in natural assets and efficient use of resources, as well as conservation of natural resources.

The fifth thrust, which is **Strengthening Infrastructure for Growth** will strengthen the transportation system and infrastructure facilities including communication, creating an integrated logistics system, ensure services are provided based on consumers' and service providers' affordability, increasing access to sanitation and water as well as electricity supply.

The sixth Thrust, **Re-engineering Economic Growth for Greater Prosperity** will encourage the shift to quality economic growth by promoting productivity, innovation and competitiveness. Focus will be given to diversifying the economic fundamentals, encouraging knowledge-intensive resources in the services, manufacturing and agriculture sectors. Emphasis will be given to promoting private investment in these sectors and increasing exports.

Planning and Implementation of 11thMP

The outcome based approach which was first implemented in 10thMP will continue to be adopted in the planning and implementation of development projects under 11thMP. In line with MyNDS, and to ensure that outcomes are achieved, ministries, state governments and statutory bodies shall plan their development projects in ways that create high impact, at low cost to the government and can be executed rapidly.

Shadow Ceiling based on Rolling Plan (RP) Approach

Project planning and implementation through the Rolling Plan (RP) approach introduced in 10thMP will continue to be adopted in 11thMP to ensure that new projects can be executed rapidly. The ceiling amount and resource allocation to be approved is subject to government's current financial capacity. The **shadow ceiling estimate** introduced under 11thMP must be used as a guide when preparing project proposals so that ministries/agencies do not submit proposals in excess.

Project Implementation under 11thMP

Performance delivery shall constitute the key benchmark against which the success of a development project is measured. To ensure that all projects are expedited, the Controlling Officer is only allowed to amend the scope of the project provided that the amendment does not involve any increase in costs, does not change the original timeline of the project and does not affect the delivery of outcomes. Notification on any change or adjustment in the scope of project must be made to the Economic Planning Unit (EPU), Prime Minister's Department (PMD) within three (3) working days.

Changes to location, geological and topographical situation of the project site will directly affect the cost of the project. For this reason, **all ministries/agencies are not allowed to change the location of the project once it has been approved**. In the event that the project site selected becomes unsuitable even though it has adhered to the guidelines for site selection, causing the costs for earthworks to increase or site location to be changed, ministries/agencies shall need to resubmit their project proposals in the form of new proposals. The original project proposal already approved will be immediately set aside and deemed nullified.

Priorities of Projects

When submitting their project proposals, ministries/agencies must give priority to and expedite the implementation of:

Projects in pursuance and still in continuation under 10thMP;

Projects which were given special approvals from the Government; and

Projects approved in phases

In assessing new development project proposals, priority in project selection will be given to projects which deliver high impact outcomes to the *rakyat* (people economy) and economic growth (capital economy). To strengthen the planning and preparation of development projects, every new project proposal will be assessed using the **Creativity Index (CI)** which is one of the elements under the National Blue Ocean Strategy. CI is a ratio of project impact received by the *rakyat* over both the developmental and operational costs for a specific period. Ministries/agencies shall decide the priorities of the projects based on the CI. The total ceiling amount for ministries/agencies per year is based on the estimated shadow ceiling agreed on.

Project Preparation under Rolling Plan 1(RP1) 2016-2017

Compliance with Acts/Guidelines/Circulars

To assist ministries/agencies in planning their development projects which will be carried during the 11thMP, all Acts/Circulars/Guidelines still in force must be complied with. The Acts/Circulars/Guidelines being referred to are:

Environment Quality Act 1974 (Amendment 1985), Section 34A;

Circular No.1/2009: Guideline for Planning and Preparation of Development Projects, from Economic Planning Unit, Prime Minister's Department;

Circular No.2/2009: Guideline and Regulations for Site Selection and Project Equipment Needs, from Economic Planning Unit, Prime Minister's Department;

Circular No.3/2009: Guideline for the Implementation of Value Management, from Economic Planning Unit, Prime Minister's Department

Circular No.1/2009: Public-Private Partnership Guideline, from the Public-Private Partnership Unit, Prime Minister's Department;

Circular No.3/2008: Function of the Federal Land Commissioner, Roles of Ministries/Consumer Departments in Land Procurement, for the Use of Federal Government and Management of Federal Lands after Procurement, from the office of Federal Land Commissioner;

Treasury Circular Letter No.7/2008: Implementation of Industrialized Building System (IBS) in Government Projects;

Treasury Circular Letter No.2/2011: Regulations in Procurement of Consulting Services for Government Projects or Research Projects; and

Guidelines and Regulations in Building Plans from Standards and Cost Committee, 2008.

Policy and Regulations Compliance

In conceptualising new projects under 11thMP, ministries and state governments shall undertake comprehensive planning and take into account views of relevant stakeholders. In this regard, the following actions must be carried out:

Ministries shall consult and engage with departments/agencies/statutory bodies under their charge before preparing their development plans.

State governments shall submit their prioritized project proposals to the ministries through their respective state economic planning units (UPEN) or state federal development offices for consideration by the ministries before they are submitted to the Economic Planning Unit (EPU), Prime Minister's Department (PMD). For this purpose, ministries shall:

engage with the State Planning Committee (JPN) or State Federal Action Council (MTPNg) to ensure that the respective ministry takes into account the development projects planned at state levels. These engagements can be coordinated by the JPN/MTPNg secretariat to facilitate the respective ministries/agencies in getting firm commitment from state land authorities, local authorities and utilities providers; and

ensure that all physical projects are carefully examined by the technical units under the ministry or, in the absence of technical units, the technical departments under the charge of the ministry, before submission to the EPU, PMD.

For physical projects, each ministry' plan must be aligned with:

The National Physical Plan which designates the national strategic spatial planning policies and measures, and translate national development objectives through spatial policies to ensure that land use and natural resources are optimized towards achieving sustainable development. The National Physical Plan can be accessed from websites belonging to the Town and Rural Planning Department ((JPBD), Ministry of Urban Development and Housing, and Local Authorities; and

The State Structure Plan and Local Plan, which constitute the forms of which structure plans and local development plans are to be prepared, including the general direction and broad pattern of development in a state, district and local government. These plans can be obtained from the respective state's and district's planning local authorities.

Some statutory bodies have been identified as having large excesses in their fund reserve pool. Therefore, in considering the proposed development projects of these said bodies, the current position of their reserve pool will be taken into account. Statutory bodies with large amounts in their reserve will need to, as much as possible, bear the costs and fund their respective development projects.

Land procurement funded by the Federal Government must be transferred in its ownership to, and have its title registered, in the name of the Federal Land Commissioner (PTP), as stated in the Treasury Circular Letter No.11/2007. In addition, the Federal Land Commissioner Circular No.3/2008 states that the Federal Land Commissioner is the registered proprietor of land owned by the Federation and shall have the authority to own and disburse lands to and from the Federal Government. Land ownership is crucial to ensure that projects are ready for implementation. **Application to execute building projects will not be considered unless and until all related matters pertaining to procurement and ownership of land are settled.**

Regulations on Value Management (VM) governing physical projects (building and equipment) with costs exceeding RM50.0 million are still applicable and in force. Further, for physical projects with costs exceeding RM50.0 million, it is compulsory that approval from the Standards and Cost Committee administered under the Value Management Section, EPU, PMD is obtained.

In addition to the above guidelines, ministries need to take into account key aspects in sustainable development which focuses on environmental benefits when planning and preparing their development plans. Thus, the use of environmental planning instruments such as the Environmental Impact Assessment (EIA) will continue to be adopted under the 11thMP to ensure that sustainable development is achieved.

To clarify the meaning of Development Expenditure and Operational Expenditure, and to avoid overlaps, duplications or oversights, ministries/agencies must comply with the Fund Allocation Classification under the Development Expenditure and Operational Expenditure List as stated in Appendix A.

Progress monitoring for projects funded by Federal Government and implemented by the state governments falls within the scope of responsibility of the relevant ministries/agencies. Thus, ministries/agencies must closely collaborate with state governments to monitor said projects and ensure timely completion of these projects.

Monitoring can be undertaken using different approaches, for example, by empowering JPN/MTPNg.

To ensure efficiency and effectiveness in resource allocation for research, development and commercialisation projects (R&D&C), ICT and Quarters, all new project proposals will be assessed and verified by the following ministries/agencies committees before they can be submitted to the EPU, PMD:

Investment Committee for Public Funds (JKPDA) under the Ministry of Science, Technology and Innovation - for R&D&C projects;

ICT Technical Committee (JTICT) under the Malaysian Administrative Modernization and Management Planning Unit (MAMPU) - for ICT projects; and

Property and Land Management Division, Prime Minister's Department (BPH, JPM) – for Quarters projects.

As on-going efforts to improve planning and implementation of development projects under 11thMP, ministries/agencies shall undertake the following:

Ensure that information in the Project Monitoring System II (SPPII) is accurate and complete. The Project Brief generated from SPPII will be used by respective implementing technical departments/agencies when commencing all pre-implementation matters for the project within the same year that the project approval is given;

Verify construction site/unencumbered land/unclaimed/undisputed land after which the land shall be ready for contractors to gain entry. This can be done by obtaining feedback from the land authorities in the respective state, or through Form K (road projects) as provided in SPPII; and

Shall use the Pre-Approved Plan designed by the Public Works Department. Any adjustments must be discussed with the Technical Department.

Ministries/agencies shall commence the pre-implementation works (preparation of procurement documentations) immediately upon receipt of the list of projects from EPU, PMD. This way, the project implementation can be expedited by issuing the Letter of Acceptance (SST) to the appointed contractors at the start of the implementation year.

Methods of Project Proposal Submission

All project proposals shall be submitted online using the upgraded e-Application module, including the Creativity Index (CI) menu which can be accessed through the SPPII.

To support every proposal for new development projects, ministries **must** provide these following documents **as attachments** through SPPII:

Floor Area Requirement Form for physical building or renovation projects (refer to **Appendix B**);

Verified Project Brief by end users and customer agencies (refer to **Appendix C**);

Site Inspection Form and Site Assessment Report for building projects (refer to Appendix 2 and 3 in Circular No.2/2009 from Economic Planning Unit, Prime Minister's Department);

Equipment Needs Application Form for equipment procurement projects (refer to Appendix 4 in Circular No.2/2009 from Economic Planning Unit, Prime Minister's Department);

Form K or land titles registered in the name of Federal Land Commissioner/Federal statutory bodies; and

Logical Framework Matrix (refer to Appendix 2 in the Second Guideline of 10th Malaysia Plan).

Date for Submission of Project Proposals

Ministries/agencies are to submit their project proposals to EPU, PMD (after coordination of proposals at state level) through SPPII, starting from 1 January until 31March 2015.

Liaison Officer

Every ministry, state economic planning unit (UPEN) and state federal development office shall appoint a liaison officer, who is a senior officer, to be responsible for all communication matters with EPU, PMD and to coordinate preparation works for 11thMP. The name of the said officer must be informed to the 11thMP Secretariat within two weeks from the date of this Guideline.

EPU, PMD will process the project proposal and coordinate related matters through the liaison officer appointed by the ministries/agencies and UPEN or state federal development office.

Queries on this Guideline

Any enquiries, correspondence and e-mails on this Guideline should be addressed to:

Secretariat

Eleventh Malaysia Plan (11thMP)
Economic Planning Unit
Prime Minister's Department Level 4, Block B5,
62502 PUTRAJAYA

Attention: En. Adam bin Sulong
Director of Budget Section
Tel: 03 8872 5446/ 5451/ 5453/ 5971/ 5449
Fax: 03 8888 3768
E-mail: rmk11_gp@epu.gov.my

All ministries/agencies/federal statutory bodies/public higher education institutions (IPTA) and state governments are requested to render full cooperation in ensuring that the preparation of the 11thMP is carried out successfully. 11thMP is a roadmap outlining the indicative planning for national development from 2016-2020 with the ultimate aim of making Malaysia a high-income and developed nation by 2020.

"SERVING THE NATION"

(TAN SRI DR. ALI HAMSA)
Chief Secretary to the Government
Chairman
National Development Planning Commission
PRIME MINISTER'S DEPARTMENT
PUTRAJAYA
19 December 2014
26 Safar 1436

Annex 2: Milestones for Regional Corridors

Regional Corridor	Investment (RM billion)	Job Creation	Major Developments
IM	Committed: 222.55 Realized: 119.6 (2006 – 2016)	717.547 (2007 - Nov. 2016)	• Education: University of Reading Malaysia, Pegasus International School, University of Southampton Malaysia Campus (USMC) • Mixed Development: Forest City • Theme parks: LEGOLand, Sanrio Theme Parks • Others: Pinewood Film Studios, Bio X-cell, Hershey Confectionary Plant
NCER	Attracted: 79.92 (2009 – 2016)	103,597 (2010 – 2016)	• Ipoh-Padang Besar double-tracking project • Second Penang Bridge
ECER	Attracted: 101 (2007 – 2016)	82,000	• East Coast Rail Line • Malaysia-China Kuantan Industrial Park
SDC	Committed: 158 Realized: 57.68 (2008 – Sep. 2016)	-	• Kimanis Power Plant (KPP) • Sabah Oil and Gas Terminal (SOGT)
SCORE	Attracted: 33.5 (2008 – 2016)	17, 018[1]	• Samalaju Industrial Park: An 8,000 hectare industrial parked with industrial infrastructure, such as port facilities and townships

[1] *Expected job creation from attracted investments, not actual*

Source: MIDA Malaysia Investment Performance Report 2016, Corridor Development Authorities

Annex 3: High-density Clusters and Focus Areas Identified in the 10th MP

Regional Corridor	Clusters and Focus Areas
IM	**Five growth nodes:** Education, healthcare, finance, creative industry, logistics, tourism **Key projects:** • Johor Premium Outlet • MSC Cyberport City • Road construction surrounding Johor Bharu city center • Improvement in public transport • JB City Transformation project
NCER	**Key outcomes:** • Agriculture: To develop modern food zone for commercial faming, enhanced technology-driven food production, farming of new crops, livestock and downstream agriculture activity • Manufacturing: To climb up value chain into high-value add activity such as chip design, medical engineering devices and wafer fabrication • Tourism: To become premier tourist destination, particularly in eco and heritage tourism • Logistics: To become major import-export hub, leveraging on infrastructure such as Penang International Airport, Second Penang Bridge and Penang Port
ECER	**Six nodes for all economic activity:** • ECER Special Economic Zone (ECER SEZ) • Cross Border Development (Tumpat-Kota Bharu-Bachok-Tok Bali-Besut) • Kuala Terengganu City Centre-Kenyir-Dungun Triangle • Mersing-Rompin • Gua Musang-Kuala Lipis • Bentong-Raub

SDC	**Strategic Development Areas:** • Sandakan-Beluran-Kinabatangan Bio-Triangle: Beluran and Tongod Agropolitan, Agrobio Innovation Zone-Sandakan Education Hub, POIC Sandakan • Lahad Datu-Kunak-Semporna-Tawau Agro-Marine Belt: POIC, Integrated Agro-food Zone and Marine Industry and Tourism Zone • The Interior Food Valley: Keningau Integrated Livestock Centre, fruits and herbal products within the Interior Agropolitan Zone; • Oil and Gas Clusters: Petrochemical complex, oil and gas support services, oil refineries and tank farms, and power plants; • Kinabalu Gold Coast Enclave: Creative industry cluster, wellness and healthcare, floriculture and specialty natural products, marine sports, signature resorts and holiday homes • Brunei Bay Integrated Development Area: Multi-modal logistics, tourism and waterfront development; livestock, food crops, fisheries and aquaculture, and halal products.
SCORE	**Five growth nodes:** • Mukah Node: To become a Smart City and serve as the nerve centre for SCORE • Tanjong Manis Node: To become leading regional port city and Halal Hub • Samalaju Node: To become new heavy industry centre • Baram & Tunoh Nodes: To focus on tourism and resource-based industries

Source: Tenth Malaysia Plan