

**SECTION 4 IMPROVING PARTNERSHIPS WITH ORGANISATIONS/AGENCIES OUTSIDE GOVERNMENT**

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## **4.1 Ensuring contestable policy advice**

The practice of opening a ministry's door to receive public views on policy formulation is heightened under the Malaysia Incorporated policy. However, the final decision on the policy will remain with the Cabinet with due regard to general public interest.

Ministers and departmental heads must be committed to the initiatives of government to improve organisational performance. Avenues must be open to seek public views on the effectiveness of policies whilst clarifying governmental policies and actions.

Policy proposals originate from respective ministries. In the process of making a policy proposal, ministries solicit views from certain sections of the public. For example the Ministry of International Trade and Industry through its Annual Trade and Industry Dialogue with trade associations gets feedback on the effectiveness of government policies on trade and industry. It provides a forum for the Ministry to clarify issues and get feedback in formulating trade and industrial policies. Another example is the Ministry of Finance which holds its Annual Dialogue sessions with the private sector to assist it in formulating the Annual Budget.

This is in line with the government initiative to be more customer-focused and to have a close rapport with the private sector, based on the underlying philosophy of serving public interest.

### **Supporting material**

- (i) Improvements and Development in the Public Service 1992, Chapter 11 (pages 525 – 568)
- (ii) The Civil Service of Malaysia – A Paradigm Shift 1993, Chapter 17 (pages 792 - 821)

## **4.2 Deregulation**

### **The context for change**

An efficient, effective, timely and expeditious service delivery is a necessary prerequisite not only to support but to promote private sector activities. Growth of the private sector will stimulate and spur on the economic development of the nation.

Deregulating administrative procedures relating to business enterprises needs to be supported and supplemented by improved internal systems and procedures. Departmental employees need to be made aware of the importance of removing bureaucratic red tape and its impact on their work processes, the organisation, their customers and the economic development of the country.

### **Implementing change**

Deregulation in the public service has specifically focused on reducing red tape in administrative procedures relating to improving business activities. Several administrative improvements have been instituted under the deregulation exercise as follows:

- a. The setting up of a one-stop centre called the "Centre For Advisory Services" in the Malaysian Industrial Development Authority, the agency responsible for the promotion and the co-ordination of industrial development. Previously, it was known as the Centre of Investment. This Centre was set up in October 1988 with representatives from the Ministry of Finance, Royal Customs and Excise Department, Ministry of Human Resource, Department of Environment, and the Factories and Machinery Department. With the setting up of the Centre, an investor does not need to go to various ministries and departments for advice or to get necessary approval. The Centre now receives, processes and conveys decisions on applications for:
  - manufacturing licences;
  - expatriate positions for manufacturing, agriculture, hotel and tourism;
  - double deduction for approved training for the manufacturing sector;

- duty exemption on machinery and equipment;
- double deduction for research and development;
- employment of women workers for night shift work etc.

Eight similar centres have been established at state level. These centres co-ordinate and decide on all matters pertaining to the issue of licences, permits and approvals and problems faced by investors at state level.

Since the centres came into being, approvals for manufacturing licences and tax incentives have risen from 1,687 in September 1988 to 3,522 in September 1990. Approval for duty exemption on raw materials/components increased by 67 per cent over the same period. Furthermore, the processing time for applications for tax exemption was reduced to two months; exemption for import duties on raw materials and components to one month and exemption from customs duties for machinery and equipment to one month.

- b. In September 1990, a study on the "System Of Licensing and Permits Pertaining to Business And Investment" was undertaken. The study covered five major sectors namely manufacturing, distribution trades, hotel and tourism, housing, and transport and communication services.

The findings of the study revealed the following weaknesses:

- inconveniences in contacting many agencies at various levels each time a particular licence or approval is required;
- delay in obtaining approval of licences because many agencies are involved in reviewing and approving the application before a final decision is made;
- applicants are required to fill in basic information repeatedly on a variety of forms which are issued separately;
- the separate issuing of licences poses a problem to the applicants as they have to shuttle from one agency to another to obtain approval for various licences.

The study recommended six strategies to deregulate administrative procedures as follows:

i) *Composite application form*

By using composite application forms, applicants are able to apply simultaneously for various licences which are issued by one agency and are necessary to operate their businesses. This eliminates the chore of filling in repetitive information on a variety of application forms.

ii) *Issue of composite licences*

The issuance of composite licences is for the mutual convenience of the applicants and agencies concerned. With this strategy, applicants are able to obtain simultaneously various licences issued by a particular agency. At the same time, the issuing authority achieves greater co-ordination in processing applications among its various divisions and units which handle applications in the organisation.

iii) *Extending the validity period of licences*

The extension of the validity period of licences from one to three years reduces the frequency of visits to relevant agencies by applicants to renew their licences. At the same time, issuing agencies reduce the workload of renewing licences annually.

iv) *Establishment of one-stop licensing centres*

The establishment of one-stop licensing centres to act as a focal point for the issuing agency to receive application forms. The centres forward application forms to the respective divisions and units for processing and approval.

v) *Abolition of licences and licence fees*

The abolition of certain licences or licence fees which are no longer relevant under present conditions.

vi) *Upgrading effectiveness of licensing systems and procedures*

This strategy is aimed at upgrading the performance of relevant agencies to provide better and expeditious services to investors and businessmen. Among the actions recommended for the upgrading of the licensing systems and procedures are:

- expediting processing of licence applications through:

- the delegation of powers of approval which are centralised to other officers; and
- the use of computerised systems.
- categorising on a uniform basis the types of businesses to be licensed under By-Laws;
- introducing new procedures or conditions to facilitate the application process;
- exemption from conditions deemed unnecessary to certain sectors.

Action taken to implement these recommendations are outlined in the supporting materials.

The deregulation process started as a government directive. A central agency, the Malaysian Administrative and Management Planning Unit of the Prime Minister's Department, responsible for introducing administrative improvements in the public sector undertook the massive study on deregulating the licences and permits pertaining to the business sector. This study identified areas for deregulation which assisted the deregulation exercise substantially in addition to the initiatives by the respective departments.

The close collaboration between the Government and the private sector under the Malaysia Incorporated Policy greatly assisted the deregulation initiative. Feedback and identification of rules, regulations and administrative procedures which are cumbersome and dilatory in nature are done through the Consultative Panels established at federal, state and district levels.

### **Supporting material**

- (i) Improvements and Development In The Public Service 1990, Programme Two (page 57) and Programme Four
- (ii) Improvements and Development In The Public Service 1991, Chapter 4
- (iii) Development Administration Circular No. 9 of 1991, Guidelines On The Implementation of the Malaysia Incorporated Policy
- (iv) Improvements And Development In The Public Service 1992, Chapter 3 (pages 266 – 277), Chapter 4 (pages 288 – 298)

(v) The Civil Service of Malaysia – a Paradigm Shift, Chapter 17

### 4.3 Inter-governmental restructuring

This entry focuses on the local government revenue finance system.

As provided for under Section 39 of the Local Government Act 1976, the revenue of the local government consists of the following:

- all taxes, rates, rents, licence fees, dues and other sums or charges payable to the local authority under the provisions of the Local Government Act, 1976;
- all charges or profits arising from any trade, service or undertaking being carried out by the local authority;
- all interest on any monies invested by the local authority and all income arising from or out of the property of the local authority;
- all other revenue accruing to the local authority from the Federal Government or the State Government or from any other source as grants, contributions or endowments.

All monies received by the local authority are paid into a fund called the *Local Authority Fund*, the disbursement from which is under the direction and control of the local authority. The monies received in respect of the Local Authority Fund are usually lodged in current or deposit accounts with one or more banks licensed under the Banking Act, 1973. All orders or cheques against the Fund have to be signed by two officers authorised in writing by the local authority. Investments from the Fund are allowed but must be in safe investments and those authorised by the Minister of Finance.

The main source of revenue of local authorities is income from assessment rates levied on property in the local authority area. Such rates may be imposed either separately for a particular service or as a consolidated rate. Most local authorities opt for a consolidated rate, which is levied annually on rate payers and payable twice yearly at prescribed dates, usually at the beginning of the year and the middle of the year. In addition, separate rates may be imposed for sewerage improvement to meet the whole or part of the cost of the sewerage system and its maintenance and for drainage, to meet the cost of the construction of any drainage system.

The determination of rates is based on the principle of ownership of fixed assets or holdings within the local authority area. Such fixed assets include houses,



apartments, shops, offices, factories, vacant land and agricultural land. The main method of valuation currently used is termed annual value.

Financial arrangements between local authorities and the federal government include financing assistance in the form of direct grants and loans as follows:

a. *Launching grants to local authorities*

Launching grants are paid out to a local authority when it is first established or restructured. The grants are utilised for the purchase of capital equipment and the financing of essential infrastructure projects. The launching grants are calculated based on the population level and the size of the area under the jurisdiction of the local authority. The maximum amount of a launching grant for a municipal council is RM3.42 million and RM4.12 million in respect of a district council.

b. *Equalisation grants*

Equalisation grants are paid out annually for operating purposes. The grants are computed on the basis of the population of the area under the jurisdiction of the local authority and the revenue that the local authority is able to collect. The minimum payable in the form of an equalisation grant is RM215,000.

c. *Local authority project grants*

Project grants are for financing development projects for three major categories, that is, socio-economic projects, infrastructure projects and those for beautification, cleaning and tourism. Such projects include the construction of markets, street lighting, eating stalls, bus stops, taxi stands and the repair of roads and drains. These grants are made available under the Five-Year Development Plans. A detailed evaluation of the requirements of the local authority is made and money is allocated in line with the priority determined by the central agencies. In allocating funds for development projects, emphasis is placed on projects which will generate revenue for the local authority and provide employment opportunities for people at the local level.

d. *Loans to local authorities*

Financial assistance from the federal government in the form of loans is for the financing of large projects such as a shopping/trading complex, large markets and sewerage projects. Such projects involve large capital costs and most local authorities do not have the means to finance them out of their own resources. The federal government provides loans on a long-term basis with a relatively low rate of interest.

This system is designed to:

- encourage local authorities to develop their area of jurisdiction.
- encourage local authorities to increase their own sources of revenue by implementing various revenue-generating and development projects.

The key stakeholder is the head of the local authorities and the respective chief executive officer of the state government where the local authority is located. Through their commitment they can influence the course of development in the local authority and in getting higher revenue finance system. Under the Malaysia Incorporated Policy, opportunities are open for the local authority to get private sector support to stimulate economic development in the area.

### **Supporting material**

- (i) Government Administrative Machinery in Malaysia, a report prepared by the Malaysian Administrative Modernisation and Management Planning Unit, Prime Minister's Department
- (ii) Local Government Act 1976

#### **4.4 A particular initiative in developing partnerships with academic institutions: the National Housing Department**

There is no specific policy regarding developing partnerships with academic institutions. Public sector agencies act on their own initiative to establish relationships with various academic institutions in the country. Partnerships with academic institutions normally focus on research activities. The practice of the National Housing Department under the Ministry of Housing and Local Government is highlighted here.

The Research and Development Division of the National Housing Department has undertaken seven different research projects relating to the housing industry with either local or foreign universities and professional bodies. These institutions provided the expertise and research capabilities in the subject areas of research. At the end of the study a report was submitted to the Department. The Department used these reports as inputs in their policy formulation relating to the housing industry.

The main reason for the partnership was to tap academic institutions for the expertise which the Department lacked.

Finding the required expertise was done through liaison with the various local universities. Funding for the joint projects was either borne by the National Housing Department or jointly funded. Both the Department and the academic institution have ownership of the research findings. However, there is no guarantee that these research findings will be used in policy formulation relating to the housing industry. The final authority to decide on this lies with the Ministry of Housing and Local Government.

Any endeavour in this partnership began with the identification of the academic institute and proper personnel/expertise to undertake the project. Having done that, negotiations were initiated and the terms of reference of the study drawn up. An agreement or memorandum of understanding was signed.

The length of the seven studies undertaken ranged from one year to four years.

## **4.5 Developing partnerships with industry**

### **The context for change**

Developing partnerships with industry in the Malaysian context is seen through the operationalisation of the Malaysia Incorporated Policy.

The Malaysia Incorporated Policy, introduced in February 1983, is one of the major strategies for national economic growth. This policy requires that the public and private sectors see the nation as a corporate or business entity, jointly owned by both sectors and working in tandem in pursuit of shared corporate goals. The policy implementation can take the form of consultative panels, forums, seminars, workshops, training programmes and even funding. This policy was given further emphasis and importance with the introduction of the guidelines on how to implement Malaysia Incorporated.

### **Implementing change**

The mechanism to facilitate partnership and collaboration with industry is through the establishment of consultative panels. Ministries and departments at federal, state, and local district levels are required to establish their panels. These panels collaborate on issues pertaining to the specific functional areas of the respective departments. The apex of these consultative panels is the Malaysia Incorporated Officials' Committee chaired by the Chief Secretary to the Government. Its members are captains of industry, representative organisations of the private sector and senior government officials. It seeks to identify areas of co-operation and collaboration to improve the delivery of services from the public sector and to work towards improving public administration in so far as it concerns the critical operations of the private sector. The exercise to improve administrative systems, rules and regulations consistent with the need to deregulate administrative and regulative controls that stifle the growth and development of the private sector is an offshoot of this collaborative effort. Deregulation is discussed in the entry on "Deregulation".

An important contribution from the private sector is the opportunity given to senior government executives to participate in an attachment training programme in private firms. This programme was started in 1983 by the Public Service Department and the British-Malaysia Industry and Trade Associations. A similar programme has been designed for attachment to European and Japanese firms.

The success of Malaysia in reaching the stage of a fully industrialised nation depends on the ability of the public and the private sector to establish and maintain a relationship based on the spirit of co-operation, mutual understanding and consensus. Through these partnerships, public sector agencies continuously upgrade their operational efficiency, receive valuable inputs for policy formulation and required expertise. The ensuing benefits of this co-operation is in the form of higher dividends to the private sector leading to spin-offs in economic investments, expansion and growth.

Consultative panels are established with representation from various trade associations. Problems and areas of possible partnerships are identified there. Emphasis is on mutual co-operation and benefit and not "at the expense of".

Key stakeholders are the heads of departments and the interested parties of various sectors in the industry. Specific partnerships and collaboration may take a few years, i.e. for specific research or the completion of a project.

### **Supporting material**

- (i) Improvements and Development In The Public Service 1990, Chapter 3
- (ii) Improvements and Development In The Public Service 1991, Chapter 3
- (iii) The Civil Service of Malaysia – A Paradigm Shift, Chapter 17

#### **4.6 A particular initiative in local empowerment: discretion for local authorities to introduce reforms**

This entry focuses on an experience by one of the local authorities in implementing government reform programmes. Within the parameters of the policy, some flexibility is given to local authorities to exercise discretion as to how it may be implemented on the ground.

The Petaling Jaya Municipal Council has embarked on several privatisation projects with the private sector to redevelop both the residential and commercial properties that it owns. By this venture, the developer undertakes to bear all costs and upon completion the Council receives a certain percentage of the completed development (assets).

This initiative:

- acts as an alternative source of income to the Council;
- optimises land utilisation;
- encourages a more active participation in local government by the local people through grassroots democracy.

The requirements for successful action are:

- a. the returns to the Council are in the form of assets;
- b. the developer undertakes all costs and risks of development;
- c. the land (which belongs to the Council) cannot be charged;
- d. the developers must:
  - be financially strong and have the necessary skill and experience related to property development;
  - deposit with the Council a performance bond of five per cent of the development costs.

Once a capable developer is identified to carry out the proposed project and the project is awarded, progressive supervision is conducted to ensure problem-free

project implementation. The key stakeholder is the President of the Council whose commitment is necessary to ensure the continual success of the project.

This has close links with the Malaysia Incorporated Policy where government agencies are encouraged to work closely with the private sector for mutual benefit and also with privatisation as discussed elsewhere.

## **4.7 Decentralisation**

Decentralisation of functions in the Malaysian federal system which comprises three tiers of government, i.e. federal, state and local government, is discussed in the entry on "Determining the Appropriate Size and Structure of Government" in Section Two. Hiving away government functions is discussed under the topic of privatisation in the same chapter. This entry discusses decentralisation of powers from the Ministry of Finance to the ministries and departments.

### **Implementing change**

Treasury Circular No. 8 of 1985 – Virement for Operating Expenditure, enables the controlling officer to make virement (transfer an allocation) from one General Object to another General Object within the same programme/activity without securing Treasury's prior approval. Treasury Circular No. 20, 1990 outlines new procedures for virement of yearly development expenditures whereby authority is delegated to the controlling officer to make virement from one subhead to another under the same Development Head for one particular year.

Where the total allocation of the development expenditure for the ministry/department is less than RM100 million, the total amount of virement allowed is 20 per cent or RM10 million, whichever is less. For allocation between RM100 million and RM500 million, the virement limit is 15 per cent or RM30 million. For allocation of more than RM500 million, the virement limit allowed is RM50 million. This flexibility is, however, accompanied by some conditions which are:

- the virement warrant should be signed only by the Controlling Officer;
- the virement from a subhead financed by direct grant to a subhead financed by borrowing, or vice versa, is not allowed;
- the virement must not exceed the five-year ceiling of each sub-head.

Projects valued above RM350,000 which do not use standard plans are no longer required to seek approval from the Standards and Cost Sub-Committee (SCSC). This flexibility is given via the General Circular No. 2, 1990 which provides:

- all development projects valued below RM 500,000 are exempted from SCSC approval;



- all development projects implemented on a Turnkey or Direct Negotiation basis need to be referred to the SCSC only during the early stage of the project proposal;
- all development projects implemented by the Department of Works and the Department of Irrigation and Drainage that follow the guidelines given need not be referred to SCSC.

These developments provide more flexibility in financial management to ministries and departments to manage their organisation more efficiently.

Officers must be well versed in all the regulations and directives pertaining to the operating and development expenditure. In this respect, training on Modified Budgeting System (MBS) is conducted by the National Institute of Public Administration for financial and budget officers.

The key stakeholders are the controlling officers who will be assessed on the financial performance of their respective agencies. Such an exercise in decentralisation starts at the Federal Treasury as an initiative to give heads of departments more flexibility to manage their departments efficiently and effectively.

This decentralisation of power is related to the Modified Budgeting System (MBS) which was implemented on a pilot basis in 1990. The aim is to improve the accountability of controlling officers in the management of resources allocated to them to achieve government objectives. Under MBS, ministries are allocated a budget ceiling which cannot be exceeded. However, controlling officers are allowed to vire between activities within the same programme without prior approval from the Treasury.

### **Supporting material**

- (i) Improvements and Development in the Public Service 1990, Chapter 10 (pages 221 – 223)
- (ii) Improvements and Development in the Public Service 1992, Chapter 8 (pages 452 – 453)
- (iii) Treasury Circular No. 8 of 1985 – Virement For Operating Expenditure (in the national language)
- (iv) General Circular No. 2 of 1990 – Standard And Cost Sub-Committee (in the national language)

- (v) Treasury Circular No. 20 of 1990, Virement For Yearly Development Expenditure (in the national language)