MALAYSIA

FEDERAL COUNTRY

ASIA PACIFIC

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Malaysian ringgit (MYR)**

POPULATION AND GEOGRAPHY

AREA: **330 800** km²

POPULATION: **29.9** million inhabitants (2014), an increase of 1.61% per year (2010-2014)

DENSITY: **90** inhabitants/km²

URBAN POPULATION: **74.7%** of national population

CAPITAL CITY: **Kuala Lumpur** (22.2% of national population)

Sources: WB, UN World Urbanisation Prospects, http://publications.europa.eu ; ILO

ECONOMIC DATA

GDP: **766.6** billion (current PPP international dollars) i.e. 25 639 dollars per inhabitant (2014)

REAL GDP GROWTH: **6.0%** (2014 vs 2013)

UNEMPLOYMENT RATE: **2.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **10 609** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **25%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.779** (high), **rank 62**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
149	-	13	162
MUNICIPALITIES AVERAGE MUNICIPAL SIZE: 200 671 INHABITANTS		STATES	

MAIN FEATURES OF TERRITORIAL ORGANISATION. Malaysia is a federal country with two tiers of sub-national governments, composed of 149 municipalities and 13 states. Malaysia remains relatively centralized compared to other federations, with most of the authority concentrated in the hands of the federal government. Local governments are under the supervision of the state governments. The States of Sabah and Sarawak became part of the Federation in 1963, and retain since then a higher degree of local autonomy. Local governments consist of city councils, municipal councils and district councils; smaller types of governments have fewer responsibilities (see below). Criteria for determining the type of a local authority rely on population size and financial turnover. City councils correspond to large urban centers, municipal councils to urban areas, while districts councils correspond to rural areas with sparse population. Local elections have been discontinued in 1965, and mayors and municipal councilors are appointed by the state government.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. States' own responsibilities include agriculture and forestry, fishery, state works and water, boarding houses, cemeteries, markets, etc. Sabah and Sarawak are in addition responsible for ports and harbours, cadastral land surveys, among others. In general, state governments have limited power to decide their own investment priorities. The functions of local authorities are governed by the Local Government Act (1976) and the Town and Country Planning Act (1976). Responsibilities shared between states and municipalities include social welfare, urban planning, healthcare, fire safety, housing, culture and sports, drainage and irrigation, etc. In Sabah and Sarawak shared functions also include water supply, charities, etc. Municipalities' own responsibilities include gas supply, environmental protection, etc. The Malaysian government is currently in the process of reforming the budgeting system with the adoption of OBB, in order to achieve efficient allocation of resources and implementation of programmes and ensure more transparent and flexible fiscal management in the public sector through a result-based approach.

EXPENDITURE	% GDP		% GENERAL GOVERNMENT (same expenditure category)		% SUBNATIONAL GOVERNMENT	
	SUBNATIONAL DATA	LOCAL DATA ONLY	SUBNATIONAL DATA	LOCAL DATA ONLY	SUBNATIONAL DATA	LOCAL DATA ONLY
TOTAL EXPENDITURE (2013)	3.0%	0.9%	9.9%	2.7%	100%	100%
CURRENT EXPENDITURE	2.0%	0.7%	-	-	68.4%	83.1%
STAFF EXPENDITURE	-	-	-	-	-	-
INVESTMENT	0.9%	0.1%	17.3%	2.5%	31.6%	16.9%

Among subnational entities, local governments' expenditures account for less than 3% of total government expenditures in 2013, compared to almost 10% for state governments' expenditures. 31.6% of state expenditures are allocated to capital expenditures, compared to 16.9% for local governments.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION

As explained above, the bulk of income of local governments is spent on recurrent items such as staff expenditures, charges and utilities, most often they have little resources to undertake development programs in specific sectors. In general, Malaysia has one of the largest civil service among other countries of similar population and size.

REVENUE BY TYPE

REVENUE BY TYPE	% GDP		% GENERAL GOVERNMENT (same revenue category)		% SUBNATIONAL GOVERNMENT	
	SUBNATIONAL DATA	LOCAL DATA ONLY	SUBNATIONAL DATA	LOCAL DATA ONLY	SUBNATIONAL DATA	LOCAL DATA ONLY
TOTAL REVENUE (2013)	**3.3%**	**0.7%**	**12.6%**	**3.4%**	**100%**	**100%**
TAX REVENUE	2.7%	0.7%	-	-	82.4%	85.8%
GRANTS AND SUBSIDIES	0.6%	0.1%	-	-	17.6%	14.2%
OTHER REVENUES	0.0%	0.0%	-	-	0.0%	0.0%

Taxes can only be levied under federal law; thereby, the federal government concentrates most tax receipts and the proportion of total revenue collected by local governments is relatively small, at 3.4%. The Ministry of Housing and Local Government classifies the sources of income for the local authorities into six groups, namely: assessment rates or tax (inclusive of contribution in-lieu-of rates); licenses; rentals; government grants (inclusive of road grants); car park charges, planning fees, compounds, fines and interests; loans (from government and/ or financial institutions).

TAX REVENUE. Tax bases are set by central authorities, and sub-national governments have limited authority for setting rates. State taxes include export duties on timber (Sabah), excise duties (Sarawak), a land tax, taxes on mines, an entertainment tax, an excise duty on liquor, etc. Municipal taxes include a self-assessed income tax, which is the main source of own revenues for local authorities. The self-asses income tax is a property tax collected on the basis of the annual assessment of rental value or the value-added, and limited to 35% of annual value or 5% of value-added of a holding Often, the problem of uncollected revenue make their situation precarious.

GRANTS AND SUBSIDIES. The system of intergovernmental transfers is enshrined in the Constitution. There are three main types of grants for states: tax-sharing grants, general purpose grants, and specific purpose grants. Tax sharing grants include 10% of exports duties on tin, 10% of exports duties on iron and 10% of exports duties on tin. General purpose grants provide general-purpose funds to state governments; they are formula-based according to population size and GDP per capita. Economic Development Grants are intended to compensate for state inequalities and promote the development of less developed states. On average, they represent 7.8% of federal grants. Last, specific purpose grants aim at funding specific expenditure in economically backward states. General and specific transfers to municipalities are made by state and federal governments to local authorities. They include annual grants from the Ministry of Housing and Local Government, an infrastructure service fund, etc.

OTHER REVENUES. Other revenues for states include royalties from petroleum, gas and forestry, sales of goods and services, dividends and interests, fees from licenses and services, property revenues, etc. Other local revenues include licence payments, trade and investment profits, fines, service fees, etc. Yet in the National accounts, there were no mentions of revenues from other sources in 2013.

OUTSTANDING DEBT

OUTSTANDING DEBT	% GDP		% GENERAL GOVERNMENT	
	SUBNATIONAL DATA	LOCAL DATA ONLY	SUBNATIONAL DATA	LOCAL DATA ONLY
OUTSTANDING DEBT (2013)	-	-	-	-

Sub-national governments are able to borrow from the federal government, from a bank or other approved financial sources, for purposes determined by the federal government, for a period not exceeding five years. Most sub-national loans come from the federal government, and terms and conditions are set by federal authorities and the federal government debt must not exceed 55% of national GDP. Yet, through consistently providing loans to state governments, the Malaysian federal government has led to a situation of unsustainable deficit of state governments.

A joint- study of:

UCLG United Cities and Local Governments

OECD

Source of Statistics: http://www.treasury.gov.my • OBB - A Way Forward Ministry of Finance (2010) • CLGF (2013), The local government system in Malaysia • J. Abd Ghani (2014), Market Preserving Federalism: Implications For Malaysia, PhD Thesis • Asian Public Governance Forum (2015), Trends and challenges of local finance management in Malaysia, by National Budget Office • N. Alam Siddiquee(2013), Public Management and Governance in Malaysia: Trends and Transformations, Routledge

Publication date: October 2016