

5. State financial performance

5.1 Financial position

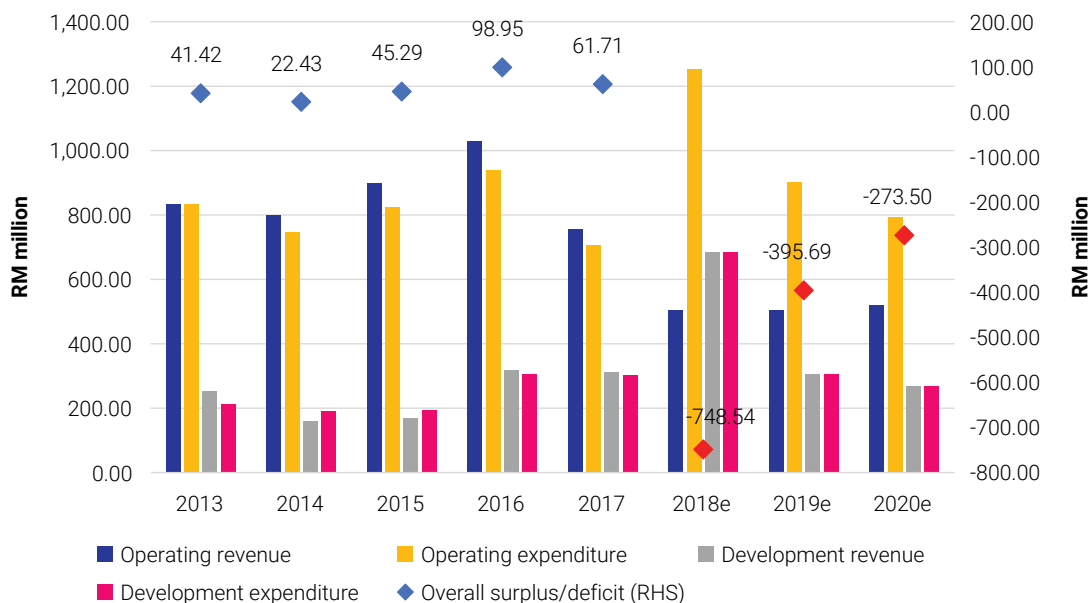
In Budget 2020, Penang's core focus is to work towards achieving "a family-focused, green and smart state that inspires the nation" as deliberated in Penang2030. Funding will be allocated towards projects that realise the state's mission. Penang2030 looks to improve quality of life by empowering people through economic upgrades and built environment, while retaining the state's core value proposition on competency, accountability, and transparency (CAT) governance. Box 5.1 explains the 4 themes and 16 key thrusts of Penang2030.

The Penang government is estimated to have a smaller budget deficit of RM273.5 million in 2020 compared with RM395.7 million in 2019—a decrease

of about 31% (Figure 5.1). This is attributed to a smaller projected expenditure for activities and development projects, which saw a drop of 12%, though it will be offset by an increase of 2.7% in operating revenue collection.

The state budgets for a fiscal deficit each year. However, the state's actual public expenditure has been lower than its estimated expenditure since 2011. As a result, it has recorded an overall surplus between 2011 and 2017. Based on the latest financial statements, the state government budgeted a deficit of RM667.1 million for 2017. However, actual public expenditure was 55% lower than the projected figure, leading to a surplus of RM61.7 million.

Figure 5.1 Penang state financial position, 2013–20



Notes:

- 1) The red diamond signifies overall budget deficit, and "e" refers to estimated budget.
- 2) The overall budget is calculated by subtracting the government revenue with government expenditure.
- 3) The 2018 state financial statement is not available at the time of writing.

Source: Penang State Financial Statements, 2013–2017 and Penang State Budgets, 2018–2020.

Compared with the previous year, the total revenue to be collected in 2020 by the state government is estimated to decrease by 2.9% to RM788.5 million, primarily because of a projected decrease of about 12% in development revenue (Table 5.1). The operating revenue is expected to increase by 2.7% to RM519.2 million in 2020, which is the result of a 14% increase in tax revenue—specifically direct tax (quit rent) and indirect tax (entertainment duties). In contrast, a smaller development revenue of RM269.3 million has been budgeted this year, with a 34.8% decrease in transfers from the operating expenditure account to RM150 million in 2020.

Total expenditure for 2020 is also estimated to decrease by nearly 12%, from RM1.21 billion in 2019 to RM1.06 billion in 2020 (Table 5.1). The state government has allocated a smaller budget for development expenditure, which will account for about one quarter of the total state expenditure in 2020. Operating expenditure is also projected to decrease by 12% in 2020 and its share will remain at about 75%, signifying a constant emphasis on public development projects while enhancing public-private partnerships (PPP) in state projects.

Table 5.1 Penang state finance position, 2017–20

	RM million				% Change			
	2017	2018 ^e	2019 ^e	2020 ^e	2017 ^e	2018 ^e	2019 ^e	2020 ^e
Operating revenue	757.01	503.76	505.50	519.16	-26.5	-33.5	0.3	2.7
Operating expenditure	705.85	1,252.30	901.19	792.66	-25.0	77.4	-28.0	-12.0
Operating balance	51.16	-748.54	-395.69	-273.50				
Development revenue	311.93	684.97	306.38	269.34	-1.7	119.6	-55.3	-12.1
Development expenditure	301.38	684.97	306.38	269.34	-2.0	127.3	-55.3	-12.1
Development balance	10.55	0.00	0.00	0.00				
Total revenue	1,068.94	1,188.74	811.88	788.50	-20.6	11.2	-31.7	-2.9
Total expenditure	1,007.23	1,937.28	1,207.57	1,062.00	-19.3	92.3	-37.7	-12.1
Overall balance	61.71	-748.54	-395.69	-273.50				

Note: ^e Estimated budget

Source: Penang State Financial Statement, 2017 and Penang State Budgets, 2018–2020.

Box 5.1 Penang2030: A family-focused green and smart state that inspires the nation

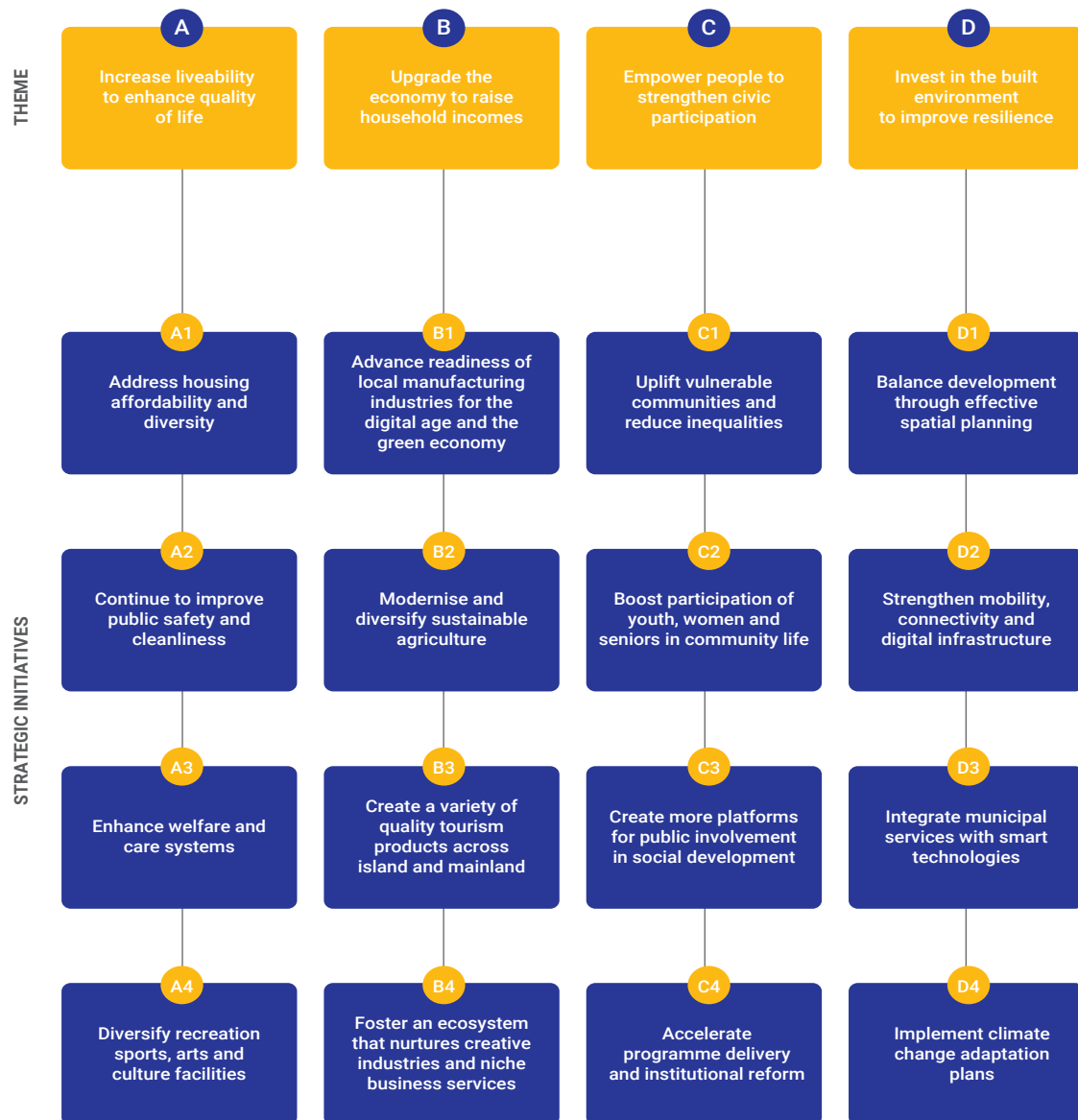
By Ong Wooi Leng

Penang2030 (2019) sets the direction of Penang’s development in the next decade, taking into consideration sociological, political, economic, and cultural challenges that the people of Penang now face.

The four themes of Penang2030 are:

- a. Increase liveability to enhance quality of life
- b. Upgrade the economy to raise household income
- c. Empower people to strengthen civic participation
- d. Invest in the built environment to improve resilience

Each theme has four key overarching strategies that seek to achieve specific targets in the next 10 years. Figure 5.2 summarises the 4 key themes in Penang2030, followed by 16 strategic initiatives.

Figure 5.2 Penang2030: Overarching strategies

Source: Penang2030

Within each theme, a foundational project has been identified by the state government to achieve the targets set in Penang2030. These projects are as follows:

Theme A: Green Connectors and Sponge City

This project aims to link different components of urban green spaces to create a network that will benefit biodiversity. This involves a comprehensive green infrastructure plan that links coastal parks to pedestrian waterfronts, as well as urban river corridors to biodiverse rural-urban green spaces.

Theme B: SME Advancement

The government continues to offer SMEs interest-free loans (maximum of RM5,000) with a repayment tenure of two years. This policy aims to encourage business start-ups among low-income groups. The scheme, “Skim Pinjaman Harapan”, is tailored to meet the needs of different categories of SMEs. Some of the loans can be scalable to low-interest loans or be accompanied by a matching grant of up to 50% of total investment required by qualified SMEs to invest in digitisation or automation.

Theme C: Happiness in Penang (HIP) Index

A happiness index for Penang has been developed to measure the social well-being of the people in Penang. It will help the state government monitor general happiness and satisfaction levels for programmes and policies developed under Penang2030. The HIP index consists of four pillars: freedom and governance (F), environmental sustainability (E), economic well-being (E), and liveability and social well-being (L), or FEEL. A public survey will be carried out to gather the sentiments of the people in Penang according to the indicators of these four pillars.

Theme D: Digital Penang

Penang Institute has assisted the state government in completing the Penang Digital Transformation Masterplan, with the aim of creating a “Digitally Enabled and Enabling Penang”. The Digital Penang Corporation was established to act as a coordination unit on behalf of the state government to ensure that economic enablement through digital technologies is made possible in Penang. Five pillars of the theme are as follows:

1. Innovative society
2. Digitally friendly workforce
3. Digitally enabled businesses
4. Digitally enabling infrastructure
5. Digitally supported government

While public sector efforts are important to meet people’s needs, the success of the plan depends just as much on having a set of core values shared by all stakeholders:

- a. Involving as many levels of stakeholders as possible in pushing not only for economic and infrastructural advancement in Penang but also for cultural development
- b. Coordinating projects and communicating positive chances and setbacks to the public
- c. Upholding principles of good governance to inspire the nation

5.2 Revenue

State revenue consists of operating revenue and development revenue. According to the 2020 Penang state budget, a total of RM788.5 million is to be collected in 2020 (Table 5.2). Of this, operating revenue is estimated to constitute about two-thirds

of the entire revenue collection, an increase of 3.5% from its estimated share in 2019. Development revenue, on the other hand, accounts for about one-third of total revenue.

Table 5.2 Breakdown of state government revenue, 2018–20

	RM million			% Change			% Share		
	2018 ^e	2019 ^e	2020 ^e	2018 ^e	2019 ^e	2020 ^e	2018 ^e	2019 ^e	2020 ^e
Operating revenue	503.76	505.50	519.16	-33.5	0.3	2.7	42.4	62.3	65.8
Development revenue	684.97	306.38	269.34	119.6	-55.3	-12.1	57.6	37.7	34.2
Total revenue	1,188.74	811.88	788.50	11.2	-31.7	-2.9	100.0	100.0	100.0

Note: ^e Estimated budget

Source: Penang State Budgets, 2018–2020.

The total estimated revenue collected in 2020 is to drop by nearly 3% compared with the total estimated revenue collected in 2019 of RM811.9 million. The decline is primarily attributed to a decrease in development revenue—where the state will experience an estimated decline of about 12%—to be used for development expenses. The decrease in development revenue is due to a smaller amount of funds estimated to be disbursed by the operating expenditure account. Meanwhile, there will be a slight increase in total operating revenue of 2.7% from an estimated RM505.5 million in revenue recorded in 2019.

Operating revenue

The state government shares similar broad categories of operating revenue with the federal government: tax revenue, non-tax revenue, and non-revenue receipt. However, sources of revenue under state jurisdictions are different.

Non-tax revenue will continue to take the lion's share of total operating revenue collection in Penang (51.2%), and will be the main source of state government revenue. This will be followed by tax revenue (32.8%) and non-revenue receipt (16.0%). The state anticipates a larger non-tax revenue in 2020, with an increase of 2.7% from RM258.8 million in 2019 (Table 5.3). Service payment receipts will constitute the largest share of non-tax revenue

collection (35.4%), followed by receipts of goods sold (29.1%) and investment income (22.1%). Compared with 2017, receipts from goods sold will no longer be the top non-tax revenue item collected in the state. While services payments—which partly comprise land application fee (2020e: RM38.4 million; +15.0%) and registration fee for land transfer (2020e: RM37.9 million; +6.2%)—are projected to increase by 7.8% to RM94.2 million, the state is expected to see a decline of 7.4% in fines and penalties to about RM7 million. This is because fines and confiscations by the Land and Mines Office are expected to significantly decrease.

Within service payments, land application fee and registration fee for land transfer will account for about 40% each. Receipts of goods sold, on the other hand, will primarily be made up of issuance of land title (54% or RM42 million). Investment income is to be the third-largest component of non-tax revenue, with a bulk its income to come from interest earned through fixed deposits. The main contributor to rental receipts will be rental of government quarters and buildings, which will constitute about RM4.4 million in 2020. With regards to licenses and permits, brick removal permits (RM3.5 million) and recreational licenses such as liquor stores (RM1.9 million), cinemas (RM1.6 million), and short stays (RM1.55 million) are expected to be key sources of revenue.

Table 5.3 State government operating revenue, 2018–20

	RM million			% Change			% Share		
	2018 ^e	2019 ^e	2020 ^e	2018 ^e	2019 ^e	2020 ^e	2018 ^e	2019 ^e	2020 ^e
Tax revenue	134.77	148.74	170.13	-0.6	10.4	14.4	26.8	29.4	32.8
Direct tax	118.77	132.74	153.13	0.3	11.8	15.4	23.6	26.3	29.5
Indirect tax	16.00	16.00	17.00	-6.7	0.0	6.3	3.2	3.2	3.3
Non-tax revenue	273.64	258.83	265.81	-19.8	-5.4	2.7	54.3	51.2	51.2
Licenses and permits	14.35	11.10	11.03	7.6	-22.6	-0.6	2.8	2.2	2.1
Service payments	80.99	87.39	94.22	-15.1	7.9	7.8	16.1	17.3	18.1
Receipts from goods sold	103.63	77.35	77.42	-22.0	-25.4	0.1	20.6	15.3	14.9
Rentals	7.08	16.75	17.42	-58.2	136.6	4.0	1.4	3.3	3.4
Investment income	60.35	58.58	58.62	-20.4	-2.9	0.1	12.0	11.6	11.3
Fines and penalties	7.25	7.66	7.09	14.3	5.7	-7.4	1.4	1.5	1.4
Local contributions ¹	0.01	0.01	0.01	-97.1	42.5	0.0	0.0	0.0	0.0
Non-revenue receipts	95.35	97.93	83.22	-66.0	2.7	-15.0	18.9	19.4	16.0
Returned expenditure	0.34	0.93	0.13	-99.0	173.5	-86.0	0.1	0.2	0.0
Receipt from federal government agencies	95.01	97.01	83.09	-61.5	2.1	-14.3	18.9	19.2	16.0
Total operating revenue	503.76	505.50	519.16	-33.5	0.3	2.7	100.0	100.0	100.0

Note: ^e Estimated budget

¹ Includes donations from firms, voluntary organisations, and individuals

Source: Penang State Budgets, 2018–2020.

Tax revenue collection will continue to be the second-largest source of state revenue. With an estimated growth of 14.4%, its share is estimated to increase by 3.4% in 2020 to about one-third of total operating revenue (Table 5.3). The increase in tax revenue will primarily be due to the introduction of parcel rent⁶⁰ in January 2020. This parcel rent will add an extra RM14.5 million on top of the existing quit rent. As a result, direct tax is expected to grow by 15.4%. At the same time, indirect tax is to increase by 6.3%, with entertainment levies contributing RM17 million; both are expected to grow at a faster rate than in 2019. Quit rent will remain the main source of tax revenue for the state, accounting for about two-thirds of total tax revenue or RM114.2 million in 2020.

The final component of state operating revenue is non-revenue receipts, which make up two sub-components: returned receipts from expenditure account and receipts from federal government

agencies. The collection of non-revenue receipts is expected to decrease by 15% to RM83.2 million in 2020 (Table 5.3). Receipts from federal government agencies make up the largest share of non-revenue receipts, where the amount will have decreased from RM97 million in 2019 to RM83 million in 2020. This is attributed to a lower amount of estimated revenue to be received from the federal government in the form of payments from federal projects implemented in the state and grants for increased revenue generated in the previous year.

Development revenue

Development revenue is collected from two main sources: state and federal grants. In 2020, Penang is estimated to collect a total of RM269.3 million for development revenue, a decrease of 12.1% compared with RM306.4 million estimated in 2019 (Table 5.4). The state will remain the main source of

⁶⁰ Parcel rent was introduced in 1 January 2020, and it is only applicable to property owners who have separate strata titles. This means that owners of flats, apartments, condominiums, commercial units, and small offices/home offices (SOHOs) will have to pay directly to the land office. This replaces the quit rent that property owners used to pay through their respective management corporations and joint management bodies (JMB). The parcel rent takes into account the floor area or size of the main parcel of a strata building.

income for development projects, representing 95% of the total development income. It will be followed by federal grants, consistently set at RM13.5 million per year since 2012, with a slight decrease of 0.1% in 2020. As seen in Figure 5.3, a large share of the state's development projects has been supported by state resources since 2008.

Within the state, over half of the state's development revenue will be from funds transferred from

operating revenue (58.6%), followed by loan recoveries from MPSP, Penang Water Supply Corporation (PBAPP) and Penang Development Corporation (PDC) (31.4%), raw water fees (3.6%), and sale/rent-to-own low-cost houses (1.0%). In addition, about 5% of total development income is expected to be brought forward from the 2019 development budget (RM13.8 million). Penang does not plan to borrow money from the federal government in 2020.

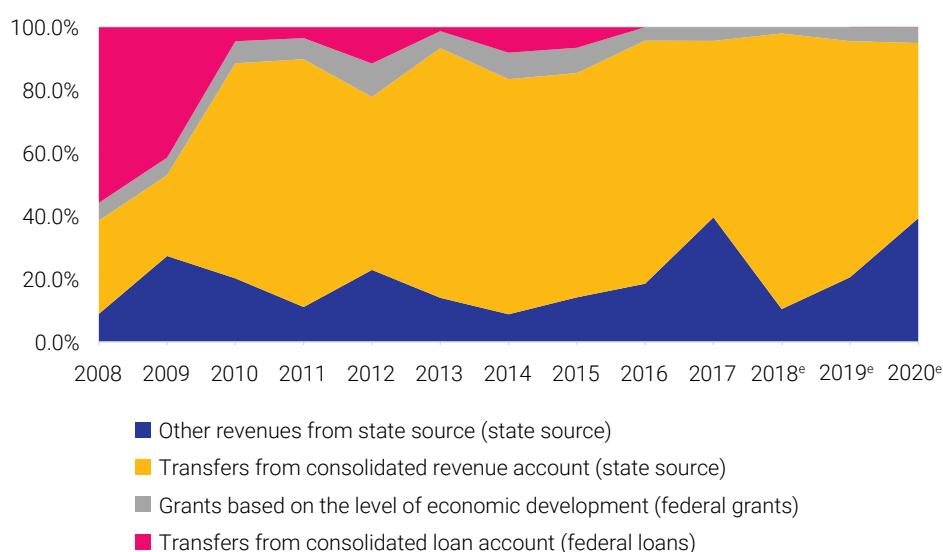
Table 5.4 Sources of development revenue, 2018–20

	RM million			% Change			% Share		
	2018 ^e	2019 ^e	2020 ^e	2018 ^e	2019 ^e	2020 ^e	2018 ^e	2019 ^e	2020 ^e
Federal source	13.52	13.52	13.50	0.0	0.0	-0.1	2.0	4.4	5.0
Federal loans	0.00	0.00	0.00	-	-	-	0.0	0.0	0.0
Federal grants based on economic development, infrastructure, and security of life stage	13.52	13.52	13.50	0.0	0.0	-0.1	2.0	4.4	5.0
State source	671.46	292.86	255.84	125.0	-56.4	-12.6	98.0	95.6	95.0
Transfers from consolidated revenue account/operating revenue	600.00	230.00	150.00	242.9	-61.7	-34.8	87.6	75.1	55.7
Sale/rent-to-own low-cost houses	2.50	2.50	2.50	-23.6	0.0	0.0	0.4	0.8	0.9
Loan recoveries (PBAPP, MPSP, PDC)	10.06	18.28	80.28	-89.3	81.6	339.2	1.5	6.0	29.8
Raw water fee	20.00	9.33	9.29	-22.9	-53.4	-0.4	2.9	3.0	3.4
Balance from consolidated development fund	38.90	32.75	13.77	-	-15.8	-57.9	5.7	10.7	5.1
Total development revenue	684.97	306.38	269.34	119.6	-55.3	-12.1	100.0	100.0	100.0

Note: ^e Estimated budget

Source: Penang State Budgets, 2018–2020.

Figure 5.3 Share of the sources of development revenue, 2008–2020e



Note: ^e Estimated budget

Source: Penang State Financial Statements, 2008–17 and Penang State Budgets, 2018–2020.

5.3 Expenditure

The state's expenditure can be divided into operating expenditure and development expenditure. Operating expenditure will continue to take up the largest share of the state's expenditure in 2020, accounting for about three-quarters. The remainder will be spent

on development projects—maintaining the same proportions as in 2019. The state government is expecting a smaller outflow of funds in 2020, with both operating and development expenditures to decrease by 12% each (Table 5.5).

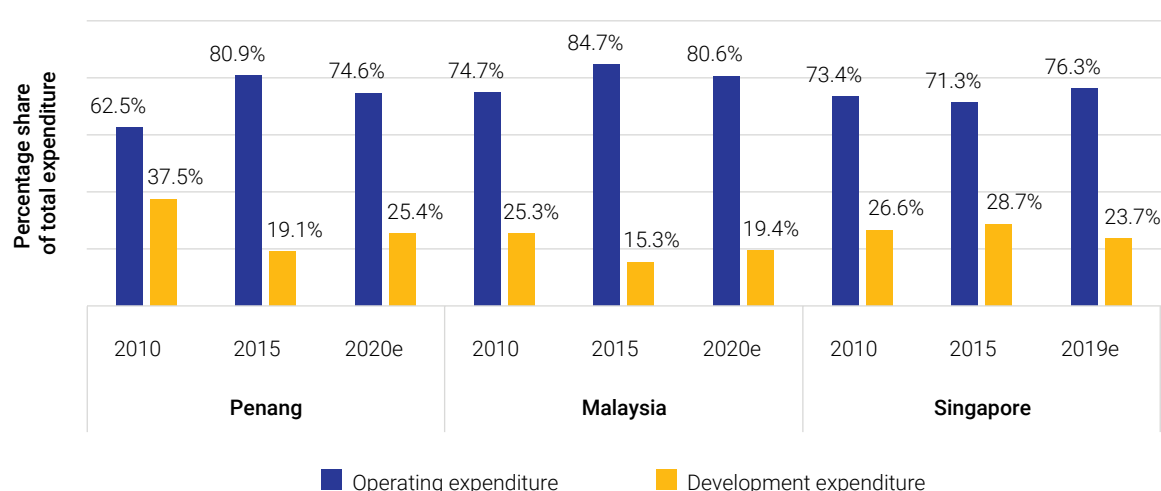
Table 5.5 Breakdown of state expenditure, 2018–20

	RM million			% Change			% Share		
	2018 ^e	2019 ^e	2020 ^e	2018 ^e	2019 ^e	2020 ^e	2018 ^e	2019 ^e	2020 ^e
Operating expenditure (A)	1,252.30	901.19	792.66	77.4	-28.0	-12.0	64.6	74.6	74.6
Development expenditure (B)	684.97	306.38	269.34	127.3	-55.3	-12.1	35.4	25.4	25.4
Total expenditure	1,937.28	1,207.57	1,062.00	92.3	-37.7	-12.1	100.0	100.0	100.0
Contribution to development funds (C)	600.00	230.00	150.00	242.9	-61.7	34.8	47.9	25.5	18.9
Operating expenditure (exclude the contribution to development funds) (D) = (A)-(C)	652.30	671.19	642.66	22.9	2.9	-4.2	48.8	68.7	70.5
Total expenditure (exclude contribution to development funds) (B) + (D)	1,337.28	977.57	912.00	60.7	-26.9	-6.7	100.0	100.0	100.0

Note: ^e Estimated budget

Source: Penang State Budgets, 2018–2020.

Figure 5.4 Percentage share of operating and development expenditures in Penang, Malaysia, and Singapore



Note: ^e Estimated budget

Source: Penang State Financial Statements, 2010 and 2015; Penang State Budget 2020; Malaysia's Ministry of Economic Affairs and Ministry of Finance Malaysia; Singapore Budget 2019; and Singapore Department of Statistics.

As mentioned in the previous section, a fraction of the operating expenditure is essentially being transferred to the development account as income for state-development-related expenses. This amount is estimated

to be smaller than in previous years, accounting for about RM150 million in 2020, down by about 35% compared with RM230 million in 2019 (Table 5.5). This has caused actual operating expenditure to reach RM642.7 million in

2020, 4.2% lower than the actual operating expenditure in 2019 (RM671.2 million). The state's contribution to the state development account will decrease after taking into account the loan repayments to be made by PDC and PBAPP to the state government in 2020 (Tan, 2019).

It is important to note that the Penang state government continues to stress socio-economic and environmental development projects. The composition of state allocation resembles the structure of government expenditure in Singapore, where at least 20% of total expenses are spent on development activities (Figure 5.4). In the federal fiscal budget, the federal government allocated 19.4% of the budget to development projects in 2020.

The Penang state government also engages in public-private partnerships for infrastructure development projects. For example, to ensure smooth traffic flow, the state government collaborated with the private sector to execute strategies recommended in the RM46 billion Penang Transport Master Plan (PTMP). This project includes building two light rail transits LRTs, a third link to the mainland, a bus rapid transit (BRT), a monorail, and three paired highways (Penang State Government, 2019). The private sector will finance some of the projects through the land reclamation of three man-made islands in the southern region of the Penang Island through the Penang South Reclamation (PSR) scheme (Mohamed, 2019). The state government is also hoping that the federal government will take the PTMP into account in its allocation for transportation projects in the 12th Malaysia Plan (12MP), to be released this year.

Operating expenditure

Operating expenditure is a composition of emoluments, supplies and services, asset acquisition, and fixed contributions (excludes contributions to the development account). In 2020, the state government is estimated to experience a 4.2% decline in the operating budget. This is owing to an expected 12.7% decrease in fixed contributions and a 12.2% decrease in asset acquisition (Table 5.6). The fixed contributions will continue to take up the largest share of operating expenditure (42%), to be followed by emoluments (28.3%), supplies and services (28.2%), asset acquisitions (0.7%), and other expenditures (0.7%).

Fixed contributions will decline in 2020, primarily because of a projected decline of 26.3% in domestic contributions disbursed by the State Finance Office. This disbursement is estimated to decrease from RM457 million in 2019 to RM337 million in 2020—the largest component in fixed contribution—before subtracting transfers to the development account (RM150 million). State grants from the Chief Minister's Office and the State Secretary's Office will make up the second-largest component in fixed contributions. These will include contributions made to the state library, state museum, state sports council, scholarships, and study aids, which will amount to about RM44.3 million—an increase of 1.4% from RM43.7 million in 2019. The third-largest component of fixed contributions will consist of fixed payments disbursed by the State Welfare Department to communities in need of social welfare. The department consistently spends RM8 million every year in this area.

Table 5.6 Operating expenditure, 2018–20

	RM million			% Change			% Share		
	2018 ^e	2019 ^e	2020 ^e	2018 ^e	2019 ^e	2020 ^e	2018 ^e	2019 ^e	2020 ^e
Emoluments	176.96	179.01	181.62	8.2	1.2	1.5	27.1	26.7	28.3
Supplies and services	158.54	172.13	181.20	13.0	8.6	5.3	24.3	25.6	28.2
Asset acquisition	8.60	4.84	4.25	10.7	-43.7	-12.2	1.3	0.7	0.7
Fixed contributions and charges/payments (excludes contributions to development funds)	302.01	310.97	271.36	39.8	3.0	-12.7	46.3	46.3	42.2
Other expenditures	6.19	4.23	4.23	93.4	-31.7	0.0	0.9	0.6	0.7
Total operating expenditure	652.30	671.18	642.66	22.9	2.9	-4.2	100.0	100.0	100.0

Note: ^e Estimated budget

Source: Penang State Budgets, 2018–2020.

Emoluments will continue to be the second-largest component in operating expenditure in 2020. The state government recorded smaller growth in emoluments in the past two years. In 2018, the state was estimated to have a growth rate of 8.2% in emoluments, which then dropped to 1.2% in 2019. The state attempts to hold emoluments more or less constant, with not more than a 2% increase each year. The Chief Minister's Office and the State Secretary's Office will record the highest share of emoluments, registering at RM45.4 million in 2020—about a quarter of the state's total emoluments. The Public Works Department will have the second-largest share of the state's emoluments (2020: RM17.9 million; 16.6%), followed by Department of Irrigation and Drainage (2020: RM17.9 million; 9.9%).

Most state departments are expected to expand in emoluments of not more than 4% in 2020 except the State Mufti Department, where its emoluments are to be expanded by 6.2% from RM1.6 million in 2019. Meanwhile, the Public Works Department, State Islamic Affairs Department, and the State Finance Office are to experience decreases of 0.05%, 4.1%, and 0.08%, respectively, in emoluments in 2020.

Supplies and services are estimated to stand at RM171.1 million in 2019⁶¹ (Table 5.6). This segment is forecast to experience slower growth in 2020—5.3% compared with 8.6% and 13% in previous years. Out of RM181.2 million, the expected figure for 2020, the Chief Minister's Office and State Secretary's Office will take up the largest share of supplies and services (47.2%), with the Management Services Division to hold the biggest stake (RM46.7 million), followed by the State Information and Communication Technology Division (RM14.2 million) and the State Economic Planning Division (RM3.9 million). Professional services and hospitality, rentals, minor maintenance and repairs, and communications and utilities are estimated to be the biggest expenses in the State Chief Minister's Office and State Secretary's Office. Meanwhile, the State Finance Department and the Department of Irrigation and Drainage are expected to take up the second and third-largest shares of total supplies and services in 2020 at 18.9% and 13.1%, respectively.

While other expenditure is projected to be unchanged, expenditure on asset acquisition is expected to decrease by 12.2% in 2020. Each constitutes about 0.7% of the state's total operating expenditure.

Development expenditure

The development budget is allocated based on the projects approved by the respective department in the state.

In 2018, the Chief Minister's Office and the State Secretary's Office had the largest expenditure, totalling RM300.4 million or about 63% of the overall development expenditure (Table 5.7). This allocation is expected to decrease by 77.8% in 2019 and then by a further 20.5% in 2020. Most of this expenditure is allocated to development activities for Penang Hill, special economic projects, low-cost housing projects, land acquisitions, and state quarters.

While land acquisition, low-cost housing plans, purchase of office equipment for KOMTAR offices, and heritage development will see smaller budgets in 2020, the drastic drop is because the state government loaned RM225 million to PDC and will also allocate RM20.7 million to water supply projects. As a result, the share of development expenditure held by the Chief Minister's Office and the State Secretary's Office has declined to 21.8% and 19.7% in 2019 and 2020, respectively.

Meanwhile, RM306.4 million and RM269.3 million were budgeted for development expenditure in 2019 and 2020, respectively. The State Finance Office is estimated to be responsible for the largest proportion of the expenditure in 2019 and 2020, representing more than 55% of the overall development expenditure. The expenditure of this department is to increase by 48.5% to RM180 million in 2019, but will decline by 15.4% to RM152.4 million in 2020 (Table 5.7). Development projects or special projects undertaken by state authorities are expected to be the major contributors to development expenditure in this department, with a decrease of 17.4% forecast for 2020 (Table 5.8).

⁶¹ This includes payments made to professional services, travelling and lodging, communication and utility, rentals, and others (Penang Institute, 2019).

Table 5.7 Development expenditure by state department, 2018–20

State department	RM million			% Change			% Share		
	2018	2019 ^e	2020 ^e	2018	2019 ^e	2020 ^e	2018	2019 ^e	2020 ^e
Chief Minister's Office and State Secretary's Office	300.42	66.82	53.11	77.1	-77.8	-20.5	63.4	21.8	19.7
Irrigation and Drainage	12.11	15.27	17.53	-14.5	26.1	14.8	2.6	5.0	6.5
Forestry	1.92	2.02	2.06	6.4	5.2	2.0	0.4	0.7	0.8
Penang Botanical Gardens	0.78	0.74	1.15	154.6	-5.7	54.9	0.2	0.2	0.4
Public Works	19.37	24.00	24.13	2.9	23.9	0.5	4.1	7.8	9.0
Religious Affairs	12.08	11.20	11.09	42.0	-7.3	-1.0	2.5	3.7	4.1
Finance	121.24	180.00	152.35	48.0	48.5	-15.4	25.6	58.8	56.6
Veterinary Services	2.96	2.96	2.98	2.3	0.2	0.7	0.6	1.0	1.1
Agriculture	3.33	3.37	4.94	-1.3	1.3	46.6	0.7	1.1	1.8
Total development expenditure	474.20	306.38	269.34	57.3	-35.4	-12.1	100	100	100

Note: ^e Estimated budget

Source: Penang State Budgets, 2020.

Table 5.8 Development expenditure by top four state development and selected development projects, 2018–20

	RM million			% Change		% Share		
	2018	2019 ^e	2020 ^e	2019 ^e	2020 ^e	2018	2019 ^e	2020 ^e
State Finance	121.24	180.00	152.35	48.5	-15.4	25.6	58.8	56.6
Development projects/special projects by state authorities	104.11	161.50	133.35	55.1	-17.4	22.0	52.7	49.5
Special projects and training	9.45	9.50	10.00	0.5	5.3	2.0	3.1	3.7
Community development	7.67	9.00	9.00	17.3	0.0	1.6	2.9	3.3
Chief Minister's Office and State Secretariat Office	300.42	66.82	53.11	-77.8	-20.5	63.4	21.8	19.7
Penang Hill development	12.08	20.48	15.39	69.6	-24.9	2.5	6.7	5.7
Special economic projects	7.08	12.00	9.85	69.4	-17.9	1.5	3.9	3.7
Low-cost houses	11.81	8.38	8.59	-29.0	2.5	2.5	2.7	3.2
Land acquisition	15.16	10.00	5.00	-34.1	-50.0	3.2	3.3	1.9
State quarters	1.88	3.38	3.78	79.9	11.8	0.4	1.1	1.4
Sports development	0.73	0.92	2.05	26.8	122.5	0.2	0.3	0.8
K-ICT and e-government development	1.14	2.18	2.07	91.5	-4.6	0.2	0.7	0.8
Public Works	19.37	24.00	24.13	23.9	0.5	4.1	7.8	9.0
Repair of bridges and state roads	8.87	7.30	9.91	-17.7	35.7	1.9	2.4	3.7
State roads	4.76	7.34	7.21	54.1	-1.7	1.0	2.4	2.7
Repair and redesign state buildings	3.75	6.96	6.13	85.7	-11.9	0.8	2.3	2.3

Note: ^e Estimated budget

Source: Penang State Budget, 2020.

The Penang Botanical Gardens and the Department of Agriculture are expected to incur larger expenses in 2020, with an increase of about 55% and 47%, respectively. Both will take up only 2.2% of the entire development expenditure (Table 5.7). A larger budget has been channelled towards the Penang Botanical Gardens for upgrading and repairing buildings/complexes/quarters. This is an increase of approximately 44%, from RM160,000 in 2019 to RM230,000 in 2020. For the Department of Agriculture, while most of its projects have the same allocation as in 2019, construction of an agriculture office in Seberang Perai Tengah is expected to cause a substantial increase in costs, from RM50,000 in 2019 to RM1.8 million in 2020.

5.4 Prospects for 2020

The budget deficit is expected to decrease by 31% to RM273.5 million in 2020 because total expenditure—operating and development expenditure—will decline at a faster rate than total revenue. However, based on past history, the state has been able to safeguard a surplus at the end of each financial year without affecting its development efforts.

As stated by The Right Honourable Chief Minister (YAB) Mr Chow Kon Yeow in his Budget speech, a lower projected development budget will not affect the development projects planned for 2020, and he encouraged more funding from the federal government and more corporate social responsibility (CSR) programmes from the private sector (Tan, 2019).

To achieve Penang2030, the state government will strengthen existing development policies and initiatives that are in line with the state's vision. According to the State Budget 2020 released on 1 November 2019, the state will allocate RM250,000 each year for a period of five years to promote the Cigarette Smoke-Free Penang (Penbar) programme, with no-smoking zones to be widened to include all districts in 2020. In addition, under the Mammo Penang programme, some RM886,000 has been allocated for free mammogram screenings in collaboration with the National Population and Family Development Board (LPPKN).

Furthermore, the government is apportioning RM50 million for welfare programmes under iSejahtera. Chow also announced that cash aid for senior citizens will be increased to RM150 annually and will benefit 178,000 senior citizens in the state. Similarly, all registered disabled persons will also receive a cash aid of additional RM50 to RM150 annually in 2020. Three stimulus packages have been made available for the COVID-19 pandemic, which are detailed in Box 5.2.

Human capital development remains the key focus of the state government. The German Dual Vocational Training (GDVT) programme will continue to be supported through subsidies. The state government is also working closely with the federal government through the Northern Corridor Implementation Authority (NCIA), Malaysian Investment Development Authority (MIDA), and Career Assistance and Talent (CAT) Centre to provide education enhancement programmes to the B40 group. The state government has set aside RM1.2 million to invest in training courses for civil servants.

Although education is under the jurisdiction of the federal government, the state government is committed to maintaining education facilities in Penang through financial support. Roughly RM12 million is to be disbursed to private, Chinese, Tamil, missionary, and religious schools in 2020. RM5 million is to aid government schools, while about RM4 million, in the form of financial aid, will be given to Penang-born students enrolled in public and private institutions of higher learning, as well as those in polytechnics.

Strengthening the state's digital infrastructure by 2030 has become the key action agenda for the state government. With a budget of RM2.1 million, the Digital Penang Corporation was established to facilitate the implementation of digital projects. It is to act as an advisory body on the direction of the state's digital development and to develop the Digital Transformation Plan for Penang. Establishing 5G network architecture and Smart Trade Facilitation Platform—an avenue made for SMEs to market their products globally—are among the action plans currently being undertaken.

Box 5.2 COVID-19: Penang's economic stimulus packages

By Yap Jo-yee

Since the COVID-19 pandemic emerged in March 2020, the Penang state government rolled out two economic stimulus packages totalling RM148.5 million; this is approximately 0.16% of the state's GDP. The first Penang Aid Package (Pakej Bantuan Rakyat Pulau Pinang or PEKA) 1.0 was announced on 17 March 2020 amounted to RM73 million (Penang Lawan COVID-19, 2020). Following the Movement Control Order (MCO), the state government unveiled a second stimulus package, PEKA Penang 2.0, on 6 May at RM76 million.

To combat the adverse economic effects of COVID-19, temporary and immediate aids need to be channelled towards low-income groups, those in precarious employment, and SMEs. Therefore, the economic stimulus packages are to provide relief to vulnerable groups, maintain worker productivity, and enable business continuity.

Penang's fiscal stimulus plan is a combination of the following:

- a) Direct injections such as one-off cash handouts and funding
- b) Cost-saving initiatives like rent waivers and moratoriums
- c) Loan funding

As seen in Table 5.9, direct cash injections made up 38% (RM56.6 million) of the RM148.5 million stimulus packages. Waivers, rebates, and loans constituted the remaining 62% (RM91.9 million).

Table 5.9 Penang's economic stimulus package disaggregated into direct injections and waivers/rebates/loans

	Direct injections		Waivers/rebate/loans		Total
	RM million	% share	RM million	% share	
PEKA Penang 1.0	40.23	55.3%	32.54	44.7%	72.77
PEKA Penang 2.0	16.41	21.7%	59.36	78.3%	75.77
Subtotal	56.63	38.1%	91.91	61.9%	148.54

Source: Penang Institute estimates based on Penang Lawan COVID-19 data.

The state government was able to build up savings by running fiscal surpluses between 2011 and 2017. Should the trend continue in 2018 and 2019 (the latest financial statements only reflect budgets), it is likely that the state will be able to fund the fiscal stimulus packages entirely with its savings. This would lessen the need to implement austerity measures in the coming years.

Fortunately, dependence on federal funding is low. While the state's future revenues are expected to fall, reduced funding from the federal government due to worsening national finances poses a minor risk.

PEKA Penang 1.0

The effects of the MCO on businesses and individuals emerged in stages. The most immediate impact was seen in tourism-related businesses such as hotels, food and beverage, retail trade, and travel agencies, as well as SMEs in the services and manufacturing sectors.

As movement all but ceased, revenues in the tourism industry nosedived towards zero; so did revenues of hawkers and stall owners. SMEs that were not allowed to operate during the MCO found themselves

without clients, but still burdened with high overhead and payroll costs. Those in informal or precarious employment were also the first to experience job losses, disproportionately affecting households in the B40 income bracket. This led state policymakers to prioritise SME owners, workers from the B40 income group, and those in the tourism industry.

One-off cash handouts of RM500 were given to hawkers and stall owners, travel bus operators, taxi drivers, trishaw riders, e-hailing app drivers, and those on welfare support. The initiative benefitted a total of 46,602 individuals. Those living in state housing units further benefitted from rent waivers for April and May. The state government also provided the state legislative assembly with emergency funding to cover groups or individuals in need of urgent support. The state provided support to SMEs in the form of interest-free loans, to be repaid within 30 months through Penang Development Corporation (PDC)'s SME (Pinjaman Kelangsungan Perniagaan) PEKA scheme. RM30 million was allocated for this purpose.

As shown in Table 5.10, the initial fiscal stimulus plan heavily emphasised SME loans and cash handouts as immediate relief measures. Almost 83% of the package was devoted to these initiatives.

Table 5.10 Summary of fiscal stimulus packages

	PEKA 1.0		PEKA 2.0	
	Value (RM mil)	Share (%)	Value (RM mil)	Share (%)
Direct injections	40.23	55.3%	16.41	21.7%
Handouts	30.23	41.5%	16.06	21.2%
PPE supplies	10.00	13.7%	-	-
Donations in-kind	-	-	0.05	0.1%
Funding	-	-	0.30	0.4%
Waivers/rebates/loans	32.54	44.7%	59.36	78.3%
Rent waivers	2.54	3.5%	2.06	2.7%
Rebate	-	-	47.30	62.4%
Loans	30.00	41.2%	10.00	13.2%
Total	72.77	100%	75.77	100%

Source: Penang Institute estimates based on Penang Lawan COVID-19 data.

PEKA Penang 2.0

As Malaysia entered the fourth phase of the MCO on 29 April 2020, the initial measures needed to be expanded and prolonged to address the emerging wider socioeconomic effects. The large, sustained drop in overall demand, caused by an extended lockdown and reductions in disposable income, was beginning to show repercussions in all sectors. The declining private sector economic conditions also led to protests against an assessment rate hike scheduled for this year. At the same time, reports of domestic abuse were rising.

Compared with the first stimulus package which focused solely on providing immediate relief, the second included rehabilitation and development initiatives. The tourism sector remained at the top of the agenda. The bulk of the stimulus package still comprised relief efforts. These continued through one-off cash handouts and extended rent waivers to a broader segment of workers and employers in need, as well as a reversal in the assessment rate hike decision. Additional loan funding of RM10,000 was provided to the tourism sector.

In terms of socioeconomic rehabilitation and development, the state increased fishermen's productivity by providing them with fishing equipment and allocated RM100,000 towards tackling domestic violence. Moreover, given the importance of sustaining the tourism sector, and recognizing the need for increased technology adoption, the state government also budgeted RM200,000 to develop Penang's arts and culture scene on digital platforms.

PEKA Penang 2.0 was formed to support the economy through savings rather than direct injections. Cash handouts took up a much smaller proportion compared with PEKA Penang 1.0 at 21% versus 42%. Cost-savings from the assessment tax rebate, valued at RM47.3 million, made up the lion's share of the package (62%) (Table 5.10).

After the pandemic

The fiscal stimulus packages were timely and necessary to safeguard the welfare of Penangites and to prevent a worse economic downturn. Apart from delivering immediate relief, the initiatives have the benefit of shaping future policies for the better.

The public-private partnership to create a digital platform for the arts and culture sector is one example. Long after the initiative has played its role to boost tourism in Penang, it will continue to be a catalyst for greater technology uptake among businesses and within the state government, and will help the tourism industry develop resilience against future crises.

In a similar vein, funding from PEKA Penang 2.0 to tackle domestic violence will build institutions and heighten awareness of the issue. In the long run, these pave the way for better processes to aid victims and lower societal tolerance for domestic abuse.

However, the increase in loans will have implications for economic stability and growth in the coming years.

Weighed down by debt, businesses will find themselves with less room to mitigate adverse impacts in the future. Moreover, constrained consumer spending and a shrunken export sector mean that demand will be sluggish for the second half of 2020 and possibly the first half of 2021 as well. In the face of a prolonged economic downturn, businesses may struggle to repay or service loans with constraining repayment terms, leading to a rise in default rates.

Even if businesses avoid defaulting, repaying these loans will be a drag on innovation and productivity. With a large portion of profits put into loan repayments, businesses will be constrained in their ability to reinvest to increase productive capacity or efficiency.

On a whole, the COVID-19 pandemic has created a harsh landscape for economic growth in the coming quarters because of both the immediate recession and its indirect effects on debt levels. Worker and business agility will counter some of these headwinds, however. Thus, once relief measures are over, socioeconomic recovery will depend on measures that aim to rehabilitate and develop, and these must come from both the public and private sectors.