

## Malaysia



The Resource Governance Index (RGI) measures the quality of governance in the oil, gas and mining sector of 58 countries. Learn more and explore findings at [www.revenuewatch.org/rgi](http://www.revenuewatch.org/rgi).

### Background

Malaysia is one of Southeast Asia's primary oil and gas producers, and was world's third-largest exporter of liquefied natural gas in 2010. The petroleum sector generated 14 percent of government revenue and represented 10 percent of gross domestic product and 20 percent of exports in 2011.

Malaysia	2000	2005	2011
Population (million)	23.41	26.10	28.86
GDP (constant 2011 international \$ billion)	119.7	162.5	287.9
GDP per capita, PPP (constant 2005 international \$)	10,622	12,011	14,174
Oil and gas revenue (% total government revenue)	...	12%	13%
Extractive exports (% total exports)	11%	15%	20%

SOURCES: Oil and gas revenue as share of total government revenue from the Economist Intelligence Unit and the International Monetary Fund. All other data from the World Bank.

### Malaysia's Performance on the RGI

Malaysia received a "weak" score of 46, ranking 34th of 58 countries. A "satisfactory" Enabling Environment contrasted with poor scores on the Institutional and Legal Setting and Safeguards and Quality Controls components.

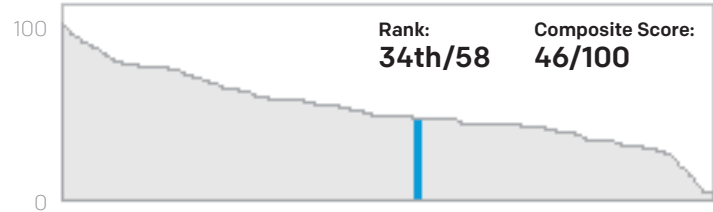
#### Institutional and Legal Setting

(Rank: 49th/58 Score: 39/100)

Malaysia's "failing" score of 39 reflects an inadequate legislative framework.

The Petroleum Development Act of 1974 gives the national oil and gas company, Petronas, the exclusive right to manage the sector with only broad policy guidance. Petronas grants licenses to companies, which must meet certain non-technical requirements, such as ethnic Malay involvement. Companies sign production sharing or risk sharing contracts and Petronas collects all payments, including taxes. Some of these revenues cover Petronas' expenses and are never deposited in the treasury. There is no independent regulator.

Malaysia requires companies to produce environmental impact assessments, but it is possible for projects to begin before



assessments are complete. There is no freedom of information law and the Official Secrets Act restricts disclosure of information deemed crucial to national security.

#### Reporting Practices

(Rank: 32nd/58 Score: 45/100)

Malaysia received a "weak" score of 45, publishing little or no information on contracts or resource-funded subsidies.

Some information on licensing procedures is published, but key aspects of the process, such as auction rules and bidder qualification requirements, are not included. Petronas announces the award of licenses through press releases with few details; contracts and licensing terms are not disclosed.

The Finance Ministry publishes information on production volumes, prices, export values, royalties, petroleum-specific taxes, dividends, and license fees. The central bank publishes production volumes, prices and export values, but not disaggregated revenue figures. The prime minister's Economic Planning Unit publishes production volumes, export values, and information on investment in the petroleum sector. The National Audit Department reports dividend receipts.

#### Safeguards and Quality Controls

(Rank: 44th/58 Score: 39/100)

A lack of disclosure policies and checks on licensing authorities led to a "failing" score of 39.

The legislature does not play a significant oversight role in the petroleum sector. Petronas is accountable only to the prime minister, and the licensing process is often used to advance national interests and favor Malaysian companies. There is no procedure to appeal licensing decisions.

The Auditor General's Office reviews the Finance Ministry's accounts, but there is no specific audit of oil revenues. Audit reports are presented to lawmakers and are reviewed annually by the Public Accounts Committee, but without special focus on the resource sector.

#### Enabling Environment

(Rank: 12th/58 Score: 60/100)

Malaysia's "partial" score of 60 reflects a satisfactory ranking for government effectiveness, but lower scores on budget openness and democratic accountability.

## State-Owned Companies

(Rank: 20th/45 Score: 61/100)

Petronas dominates Malaysia's petroleum industry. The company's annual reports contain data on reserves, production volumes, prices, export values, investment in the sector, production costs, the names of subsidiaries, disaggregated revenue figures, and some information on quasi-fiscal activities. The company is audited quarterly; audits are published but do not include the accounts of subsidiary companies. Petronas publishes the composition of its board of directors, but does not disclose its decision-making policies.

## Natural Resource Funds

(Rank: 12th/23 Score: 46/100)

The National Trust Fund was established in 1988 to conserve

resource wealth for future generations, and can only be used for development projects. While the fund is managed by the central bank, policy decisions are made by the Finance Ministry, which publishes the fund's balance in annual reports. Its legal framework does not specify the percentage of revenues Petronas is required to contribute.

## Subnational Transfers

(Rank: 26th/30 Score: 22/100)

Malaysia's four petroleum-producing states have signed agreements with Petronas entitling them to 5 percent of the profits from local oil and gas production, but the agreements are not published. The central government does not report the transfer amounts, and only two of the four states include them in their budget statements. Malaysia's petroleum-producing states are also its poorest, and subnational governments have demanded a larger share of resource revenues.

## Malaysia's Composite, Component and Indicator Scores

Rank (out of 58)		Score (out of 100)
<b>34</b>	<b>COMPOSITE SCORE</b>	<b>46</b>
<b>39</b>	<b>Institutional and Legal Setting</b>	<b>39</b>
	Freedom of information law	0
	Comprehensive sector legislation	33
	EITI participation	0
	Independent licensing process	17
	Environmental and social impact assessments required	50
	Clarity in revenue collection	50
	Comprehensive public sector balance	44
	SOC financial reports required	100
	Fund rules defined in law	100
	Subnational transfer rules defined in law	0
<b>32</b>	<b>Reporting Practices</b>	<b>45</b>
	Licensing process	50
	Contracts	0
	Environmental and social impact assessments	33
	Exploration data	50
	Production volumes	50
	Production value	67
	Primary sources of revenue	100
	Secondary sources of revenue	60
	Subsidies	0
	Operating company names	0
	Comprehensive SOC reports	17
	SOC production data	86
	SOC revenue data	63
	SOC quasi fiscal activities	50
	SOC board of directors	50
	Fund rules	0

Rank (out of 58)		Score (out of 100)
	Comprehensive fund reports	100
	Subnational transfer rules	0
	Comprehensive subnational transfer reports	33
	Subnational reporting of transfers	100
<b>44</b>	<b>Safeguards and Quality Controls</b>	<b>39</b>
	Checks on licensing process	0
	Checks on budgetary process	100
	Quality of government reports	72
	Government disclosure of conflicts of interest	0
	Quality of SOC reports	100
	SOC reports audited	44
	SOC use of international accounting standards	100
	SOC disclosure of conflicts of interest	0
	Quality of fund reports	67
	Fund reports audited	50
	Government follows fund rules	50
	Checks on fund spending	0
	Fund disclosure of conflicts of interest	0
	Quality of subnational transfer reports	0
	Government follows subnational transfer rules	0
<b>12</b>	<b>Enabling Environment</b>	<b>60</b>
	Corruption (TI Corruption Perceptions Index & WGI control of corruption)	65
	Open Budget (IBP Index)	43
	Accountability & democracy (EIU Democracy Index & WGI voice and accountability)	45
	Government effectiveness (WGI)	82
	Rule of law (WGI)	65

<span style="color: green;">■</span>	Satisfactory	<span style="color: orange;">■</span>	Weak
<span style="color: yellow;">■</span>	Partial	<span style="color: red;">■</span>	Failing