MALAYSIA

JAPAN INTERNATIONAL COOPERATION AGENCY

PROJECT FORMULATION STUDY ON STRENGTHENING MANAGEMENT AND APPRAISING CAPACITY OF FINANCIAL INSTITUTIONS IN MALAYSIA

Final Report

PE Research Sdn Bhd

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Preface

This report is the outcome of a Project Formulation Study commissioned by JICA Malaysia Office to PE Research Sdn Bhd. The objectives of the study are to understand the current situation and problems faced by the Malaysian financial sector, especially the Development Financial Institutions and to design and provide recommendations to assist JICA to formulate technical cooperation projects for Malaysia in line with JICA's Program Approach.

This study focuses at developing an understanding of the functions and future plans of DFIs in particular those DFIs that are involved in providing financing to SMIs. To provide the background of the environment surrounding DFIs, a summary of the various strategies, policies and regulations that govern the development of DFIs is included together with a compilation of the various SMI financing programmes. This is followed by an evaluation of roles of the DFIs through interviews with the relevant officials with focus on their appraising procedures, the training system and the publicity work to SMIs of DFIs. The summaries of these interviews as well as the discussions with the key agencies that play a role in the development of DFIs are also included in the report. In addition the findings from the survey interviews of SMEs provide relevant information on the issues and challenges faced by SMEs in obtaining financing.

Based on the results of the study as well as from discussions with JICA Malaysia officials, recommendations for technical cooperation projects were then formulated and these are presented in the Development Objective Matrix. Based on these recommendations, it is hoped that JICA would seek possibilities of technical cooperation with the Government of Malaysia and to formulate technical cooperation projects in these areas.

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Executive Summary

1.0 Objectives of the Study

This study is carried out to assist JICA to develop an understanding of the current situation and problems faced by the Malaysian financial sector, especially the Development Financial Institutions (DFIs) and to design and provide recommendations to assist JICA to formulate technical cooperation projects for Malaysia.

2.0 Review of Literature

2.1 Financial Sector Master Plan (FSMP)

The **FSMP**, which was launched in March 2001 by *Bank Negara Malaysia* (BNM) to provide the medium and long-term directions for the development of a globally competitive financial system, cover the following:

- Banking sector;
- Insurance sector;
- Islamic banking and *takaful*;
- **Development financial institutions**;
- Alternative modes of financing (including venture capital); and
- Labuan International Offshore Financial Centre.

Implementation of the FSMP is being carried out in three phases and a FSMP Secretariat and a FSMP Steering Committee has been set up to manage and monitor the implementation of the plan.

Phase 1 (3 years)	Phase 2 (3 – 4 years)	Phase 3 (after 7 years)
• enhance the capacity of domestic institutions to compete	• intensifying competitive pressure in the domestic financial sector	• assimilate into the global arena
• enhance financial infrastructure		• introduce new foreign competition

2.2 Development Financial Institution Act (DFIA)

The **Development Financial Institution Act** (DFIA) entrusts BNM as the centralised supervisory institution for DFIs to ensure that the policies and objectives of DFIs are consistent with the Government initiatives. Furthermore the DFIA places strong emphasis on the assessment of the efficiency and effectiveness of DFIs in performing their roles and objectives. The Act also emphasises on efficient management and effective corporate governance as well as incorporating prudential requirements with the aim to ensure safe and sound financial operations of DFIs, so as to be in line with the best practices of insurance companies and banking institutions.

2.3 *Implementation of DFIA*

To date, six DFIs have been placed under the purview of the DFIA. They are *Bank Pembangunan dan Infrastruktur Malaysia Berhad* (BPIMB), *Bank Industri dan Teknologi Malaysia Berhad* (BITMB), Malaysia Export Credit Insurance Berhad, Export-Import Bank of Malaysia Berhad, *Bank Kerjasama Rakyat Malaysia Berhad* and *Bank Simpanan Nasional*.

3.0 *Profiles and Performance of DFIs*

The profiles and performance of the DFIs that are actively involved in providing financial assistance to SMIs, namely *Bank Pembangunan dan Infrastruktur Malaysia Berhad* (BPIMB), *Bank Industri dan Teknologi Malaysia Berhad* (BITMB), Malaysian Industrial Development Finance Berhad (MIDF) and Credit Guarantee Corporation (CGC) are summarised in the following table:

	BPIMB	**BITMB**	**MIDF**	**CGC**
Year Established	1973	1979	1960	1972
Under	Ministry of Entrepreneur Development	Ministry of Finance	Ministry of International Trade & Industry	Ministry of Finance
Principal Activities	To encourage and accelerate the pace of *bumiputera* participation in commerce and industry. Since 1999, entrusted with the financing of main infrastructure projects	To provide medium and long-term financing to capital intensive, high technology & export oriented industries, especially to the maritime, manufacturing and export-oriented sectors.	To provide medium to long-term financing to promote industrialisation in the country	To assist small and medium-sized enterprises (SMEs) to gain ready access to credit.
Performance	Total loans increased from RM 1.4 billion (1998) to RM 6.5 billion (2001) but the proportion of loans to SMEs in value terms has been declining from 56% to only 18%.	Total loans approved declined from RM 0.46 billion (1997) to RM 0.26 billion (2001).	Total loans: RM307 million FYE 2002 with SME accounting for 82% of loans approved (57% in value terms).	Total loans guaranteed as at end of 2001 was RM21.1 billion.

4.0 *SMI Financing Programmes*

The Government of Malaysia has allocated more than RM8 billion to provide financing for SMEs through various funds. At the end of 2001, there are 49 funds and guarantee schemes available for entrepreneurs to finance their various business ventures. Furthermore, there are a total of 13 ministries and twenty-nine Government agencies that are responsible for administering and implementing the various funds. The major agencies and Ministries administering and implementing the SMI Financial Assistance Programmes include BNM, MITI, MOF and MED. In addition to the government-sponsored funds for SMEs, several commercial banks also offer financial assistance to SMEs.

The major funds available for SMEs are summarised below:

Fund	Objectives	Implementing Agencies
1. New Entrepreneurs Fund (NEF)	Encourage new *Bumiputera* entrepreneurs to venture particularly into the manufacturing, agriculture, tourism and export oriented industries	All Commercial Banks, Finance Companies and Islamic Banks; BITMB, BPIMB, MIDF
2. Industrial Technical Assistance Fund	Modernise and enhance development of SMEs	SMIDEC, MTDC, NPC, MIDF
ITAF 1	Consultancy and advisory services in business planning & development	
ITAF 2	Develop, improve & upgrade indigenous product, design & technology	
ITAF 3	Upgrade productivity and quality to international standards & certification	
ITAF 4	Assistance for SMEs to enter export markets & enhance competitiveness	
3. SME Tourism Fund (SMET)	To assist *bumiputera* entrepreneurs in SMIs related to the tourism industry.	BPIMB
4. Fund for Food (3F)	Primary food production and new productive capacity	BPIMB, Bank Pertanian, All Commercial Banks
5. Modernisation and Automation Scheme*	Loans for SMEs who have linkages with MNCs and potential to expand	SMIDEC, MIDF
6. Quality Enhancement Soft Loan Scheme*	Enable quality enhancement for *bumiputera* SMEs	SMIDEC, MIDF
7. Joint-Venture Promotion Scheme	Joint-ventures between *bumiputera* and Non-*bumiputera* entrepreneurs	All Commercial Banks
8. Infrastructure Development Program	Cluster based industrial sites development	MIEL
9. Financial Package for SMEs (PAKSI)*	Project and working capital financing for SMEs	SMIDEC, MIDF
10. Fund for Small and Medium Industries (FSMI)	To promote SMEs in the manufacturing, agro-based and services sector	MIDF, BPIMB, BITMB, Bank Pertanian, Sabah Development Bank, All Commercial Banks, Finance Companies and Islamic Banks
11. Rehabilitation Fund for Small and Medium Industries (RFSMI)	Assist viable SMEs that have defaulted on loan payments	MIDF, BPIMB, BITMB, Bank Pertanian, Sabah Development Bank, All Commercial Banks, Finance Companies and Islamic Banks

Fund	Objectives	Implementing Agencies
12.Small Entrepreneurs Fund (SEF)	Loans to small entrepreneurs	Bank Kerjasama Rakyat, All Commercial Banks and Finance Companies
13. Fund for Small and Medium Industries 2 (FSMI2)	To promote SMEs in the manufacturing, and services sectors	MIDF, BPIMB, BITMB
14. Bumiputera Entrepreneurs Project Fund	Working capital for *bumiputera* entrepreneurs with contracts	ERF Sdn Bhd
15. E-Commerce Grant	To assist SMEs to adopt e-commerce	SMIDEC
16. Entrepreneur Rehabilitation and Development Fund	To assist distressed but viable *bumiputera* companies through NPL/NPF resolution and additional working capital support	All Commercial Banks, Finance Companies and Islamic Banks
17. New Entrepreneur Fund 2 (NEF2)	To encourage growth of new *bumiputera* entrepreneurs	All Commercial Banks, Finance Companies and Islamic Banks; BITMB, BPIMB, MIDF
18. Soft Loan Scheme for SMEs	To assist existing & new start-up SMEs to modernise & automate their operations through project, fixed assets and working capital financing	MIDF
19. E-Manufacturing Grant	To assist SMEs to adopt ERP	SMIDEC
20. RosettaNet Grant	To assist local E&E to adopt and implement global supply chain management system.	SMIDEC
21. Engineering Design Grant	To assist SMEs to enhance their engineering design capabilities.	SMIDEC

* *These three schemes have been repackaged under the Soft Loan Scheme for SMEs.*

4.1 *Impact of SMI Financing Programmes*

The SMI Financing Programmes has improved access to credit and in turn has resulted in higher loans to SMEs.

As at September 2002, a total of 19,207 cases were approved for the 12 main SME funds monitored by BNM. These 12 funds had an allocation of RM7.55 billion out of which the amount of loans approved amounted to RM9.0 billion.

5.0 Evaluation of DFIs

From the interview surveys it was noted that the definition of SME varies considerably depending on the inidividual DFIs and funding schemes. Furthermore, DFIs tend to have their own specific target market segments within the SME market. The assessments regarding the publicity work, appraising procedures and training system of the four DFIs are presented in matrix below. Based on this the study has identified the issues (in **bold**) that need to be addressed through possible technical cooperation projects.

<table>
<tr><th>Publicity Work</th><th>Appraising Procedures</th><th>Training System</th></tr>
<tr><td>Despite most DFIs expressing greater efforts in publicity work in general and SMEs in particular, most SMEs remain unaware of the financial schemes provided by them</td><td>DFIs' credit processing is very much manual-based involving much documentation with emphasis placed on qualitative factors rather than quantitative factors</td><td>DFIs have fairly high allocations for staff training with in-house training being the norm</td></tr>
<tr><td>DFI staff are well-versed on the SME loan schemes that they are marketing</td><td>Although there is some standardisation in documentation for loan applications the documentation is extensive</td><td>Most of DFI training are focused on technical skills training</td></tr>
<tr><td rowspan="3">DFIs still need to enhance their presence among SMEs and to assist them with advisory services and support</td><td>DFIs assume more risks in their lending portfolios given their role as development agents for SMEs</td><td rowspan="3">DFIs also need training on corporate governance</td></tr>
<tr><td>Efforts are made to construct a risk rating model to take cognition of specific project lending risk</td></tr>
<tr><td>DFIs need to establish a system/framework to evaluate and monitor the progress and performance of SMEs</td></tr>
</table>

6.0 Lessons

The **lessons** drawn from the evaluation of the DFIs are as follows:

6.1 <u>Outreach and Effectiveness</u>

- Varying definitions of SMEs, in contrast to a uniform definition, can potentially diffuse the effectiveness of funding SME growth.
- Impact of DFIs loans to SMEs is still limited.

6.2 <u>Challenges</u>

- There is a need to prioritise the sectors in situations where funds are limited and not sufficient for all potential beneficiaries.
- DFIs need to reconcile their developmental welfare driven objectives with the need to be self-sustaining in the long run.
- SME borrows need close monitoring and thus there is a need for DFIs to establish closer operating relationships with SME borrowers in order to be able to be responsive and to be available for assistance.

6.3 *Funding*

- Funding for some DFIs is becoming an issue as their funds have dwindled and are insufficient to meet loan requirements.

6.4 *Needs of DFIs*

- While most of the DFIs are articulating a risk management system there is still a need for a system or framework to be in place to facilitate evaluation and monitoring of SME accounts.
- DFIs need assistance to improve upon their presence with SMEs through the provision of timely advisory services and support to SMEs.
- The lack of comprehensive database and information system has hampered the monitoring and maintenance of loan accounts and this is an area that needs to be addressed.
- There is a need for continual upgrading of skills within DFIs while transferring of technical know-how and enhancement of corporate governance are indispensable for future growth of DFIs.

7.0 SME Survey Findings

7.1 *Lack of awareness of Government financing schemes*

The survey confirmed that SMEs are largely unaware of most of the financing schemes made available by the Government.

7.2 *Purpose of loans*

Reasons for loan applications were largely for the "purchase of new machinery and equipment" followed by "upgrading current business" and for "stock/raw material purchase".

7.3 *Rigid loan conditions*

Although the interest rates offered by the DFIs were considered fair compared to commercial banks and leasing companies, in terms of loan conditions, DFIs are perceived as more rigid. In the case of approval process and procedures, the documentation process in the DFIs is deemed slow compared to commercial banks and leasing companies.

Even though the commercial banks and leasing companies have higher interest rates than the DFIs, these are most often off-set by their flexible loan conditions, fast processing time and myriad financial services offered.

It is clear that in terms of loan conditions and approval processes, DFIs still need further improvements. SMEs felt that DFIs should be more flexible in their loan terms and conditions taking into account their development objective.

7.4 *Slowness in processing and disbursement*

The extensive amount of documentation required by DFIs compounded with the inflexible terms and conditions were the main reasons for the delay in processing the application. The documentation as required by the DFIs such as cash flow statements as well as management accounts might not be easily prepared by certain number of SMEs. Thus it is imperative that DFIs simplify not only the application process and procedures but also the loan terms and conditions. SMEs also indicated that the disbursement of the loan after approval by the DFIs was slow.

8.0 Recommendations for Technical Cooperation Projects

8.1 Assessment of the Current Situation

Although Malaysia has made significant progress to strengthen the financial system, there are still challenges that need to be addressed. With respect to financial legal framework there already exists a comprehensive system of legislations and as such there is no need for JICA assistance in the formulation aspect of this area. However, there is a need to enhance the implementation of the legislations. Likewise, although the Government has taken positive steps towards institutional capacity building through the implementation of the FSMP and the DFIA, there is still a need to enhance the supervisory capacity of the focal institution as well as to enhance the capacity of the DFIs. In the area of funding system, while institutional arrangements for venture capital are already in place, there is a need to streamline the financing programmes for SMEs in order to reduce confusion and to increase the impact of the programmes. The Government has also taken steps towards improving the credit guarantee system which is already in place with CGC and various government guarantee schemes.

8.2 Matching Malaysia's Needs

Based on the assessment of the current situation in Malaysia and matching Malaysia's needs for strengthening economic competitiveness of the DFIs with JICA's aid objectives it is recommended that out of the four areas assessed JICA should concentrate the technical assistance on **Institutional Capacity Building** and on the **Funding System**.

Area	Current Situation	Need
Financial legal framework	Existing comprehensive system of legislations	For formulation of legislations: None
		For effective implementation: possibility to conduct technical assistance projects
Institutional Capacity Building	Implementation of DFIA Implementation of FSMP	Enhancement of supervisory capacity Enhancement of capacity of DFIs
Funding System	Institutional arrangements for Venture Capital already established as private corporation*	None
	Too many financing programmes for SMEs	To be streamlined to reduce confusion
Credit Guarantee System	CGC and various government guarantee schemes	None

* *JBIC funding in Malaysia Debt Ventures in ICT.*

8.3 *Technical Assistance*

The goal of the technical assistance is for the **Improvement of Efficiency and Effectiveness of Financing Programmes** - The development objective is to assist in the **reconstruction of existing financing programmes**. The Government has started to take steps to rationalise some of the financing programmes for SMEs e.g. the Soft Loans for SMEs which incorporates PAKSI, MAS and QES. In addition the enactment that governs the establishment of SMIDEC identifies it as the focal institution for SMEs. Yet there are still various agencies that are providing financial assistance to SMEs. There is therefore a need to rationalise the situation to reduce duplication.

In order to achieve improvement of efficiency and effectiveness of financing programmes, **supervisory capacity on DFIs** will need to be enhanced. Furthermore there is a need to enhance the **institutional capacity of DFIs** in three key areas – appraisal, publicity and advisory largely through human resource development.

Development Objectives[1]	Contents of Technical Co-operation
Reconstruction of existing financing programmes	**Recommendation 1**: Dispatch of Expert to SMIDEC - to advice and assist SMIDEC[2] to review and reconstruct the existing financing programmes for SMEs
Capacity Building of DFIs through enhancement of supervisory capacity of BNM on DFIs	**Recommendation 2**: Technical Cooperation Project with BNM - to advice and assist the DFI Regulation Department to review the roles & functions of the DFIs; - to design systems to monitor the performance of the DFIs; - to study the approach and methodology with respect to the establishment of an information & advisory centre within the DFIs
Enhance appraisal capacity of DFIs	**Recommendation 3**: Technical Cooperation Project with DFIs - to advice and assist DFIs to review their funding procedures and systems - to help put in place a performance evaluation system to monitor the performance of their SMI customers - to help identify the appropriate training method or modality - to conduct on-the-job training to staff of DFIs
Enhance publicity capacity of DFIs Improve accessibility to the financial programmes of DFIs	**Recommendation 4**: Technical Cooperation Project with DFIs - to evaluate the effectiveness of information dissemination channels - to assess the adequacy of the mode of information to be disseminated - to help formulate an effective publicity & marketing strategy to enhance the presence of DFIs among the SMEs - to assist with the establishment of an information & advisory centre to bridge the gap between DFIs & SMEs - to conduct on-the-job training to staff of DFIs

1 Some of the Technical Co-operation projects have common "Development Objectives". As such, there is a possibility to integrate them into one Technical Co-operation project.

2 Although SMIDEC is a likely focal point to coordinate this Project, other likely focal points could be Bank Negara Malaysia or even the Ministry of Finance. Further discussions with the institutions are required to sort this issue.

Development Objectives[1]	Contents of Technical Co-operation
Enhance advisory capacity of DFIs	**Recommendation 5**: Technical Cooperation Project with DFIs - to facilitate the enhancement of the DFIs' supporting activities in project and management advisory and consultancy services to SMEs - to work jointly with the officers in DFIs in expediting to the advisory and consultancy services to SMEs and to provide an avenue for technical know-how transfer - to help identify the appropriate training method or modality - to train DFI staff to provide management and advisory services to SMEs

Chapter 1.0: Outline of Formulation Study

1.1 Background

In July 2002, JICA Malaysia Office commissioned PE Research Sdn Bhd to carry out a Project Formulation Study on Strengthening Management and Appraising Capacity of Financial Institutions in Malaysia. These Project Formulation Study aims at developing an understanding of the current situation and problems faced by the financial sector, especially the Development Financial Institutions (DFIs). In addition, the study will also design and recommend technical co-operation projects for JICA and Malaysia.

According to *Bank Negara Malaysia* (BNM), Development Financial Institutions (DFIs) are institutions that have been **established and largely funded by the Government** to promote the development of certain identified priority sectors and sub-sectors of the economy. The sectors currently promoted by DFIs are the agriculture sector, infrastructure development, shipping, capital-intensive and high technology industries. At the same time, they also play a **crucial role in the development of SMIs**, the agriculture and housing sectors. Additionally, DFIs contribute towards achieving certain social goals, by providing financial services and support to **complement the banking institutions**. DFIs are generally specialised in the provision of **medium and long-term financing of projects that may carry higher credit or market risks** due to the longer investment tenures.

1.2 Objectives of Formulation Study

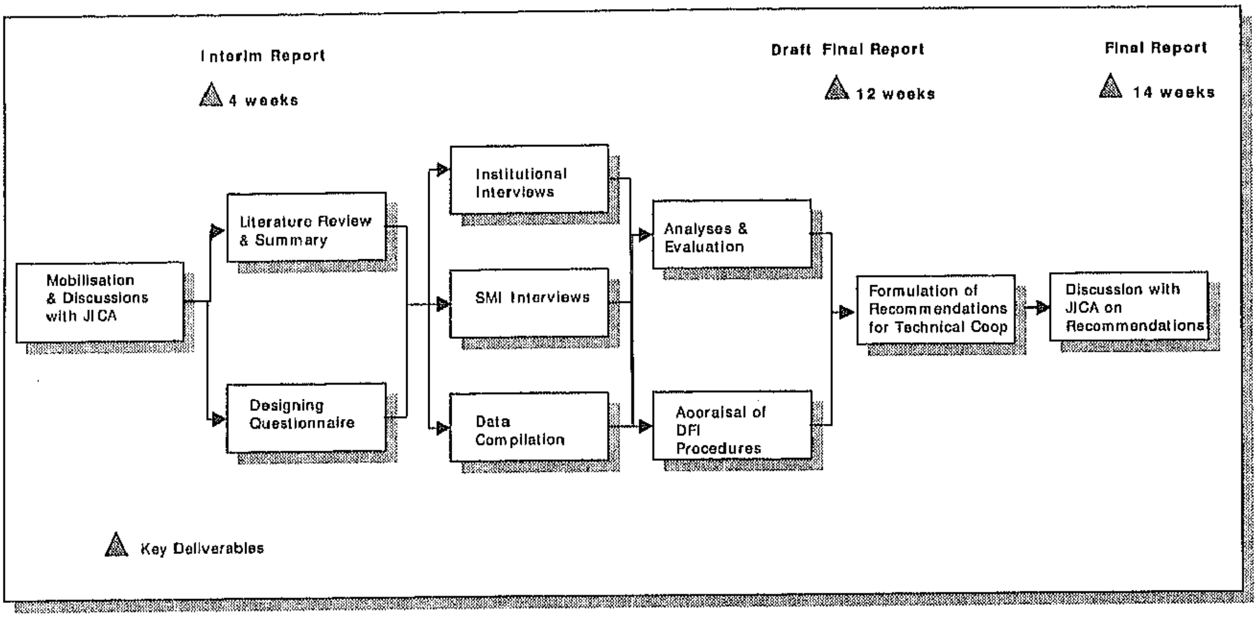
This Formulation Study is in line with one of JICA's Aid Priority Sector, i.e. strengthening of economic competitiveness through support to SMIs and responding to economic globalisation. Based on this context, the **objectives** of the study are to develop an understanding of the current situation and problems faced by the Malaysian financial sector, especially the Development Finance Institutions (DFIs) and to design and recommend technical co-operation projects for JICA and Malaysia.

1.3 Methodology of Formulation Study

The project approach and methodology for this study closely follow the Scope of Work as outlined in the Terms of Reference (as shown in **Annex 1**). This approach is illustrated in **Figure 1.1**.

There are seven components to this project formulation study. The first entails developing an understanding of the function and future plans of DFIs. For this, the study team carried out a literature search and review of several government documents and publications including the Financial Sector Master Plan (FSMP), the Development Financial Institution Act 2002 (DFIA), and Annual Reports and publications of *Bank Negara Malaysia* and the DFIs. The findings from the review are presented in **Chapter 2.0** of this report. This Chapter also summarises the contents of the FSMP as well as the DFIA. To augment this, the study team also conducted institutional interviews with *Bank Negara Malaysia,* the Ministry of Finance and the *Institut Bank-Bank Malaysia* (IBBM). All these are summarised and presented in this chapter.

Figure 1.1: Project Approach & Deliverables



For the second component of the study, the study team compiled information and data on financing to SMIs as presented in **Chapter 3.0**. While most of the information was compiled from secondary sources including the various websites of the agencies and institutions, the information was also supplemented from data gathered from the interviews with DFIs as well as with relevant agencies.

To develop a better understanding of the appraising procedures, training system and publicity work of the DFIs as required under Components 3, 4 and 5 of the TOR, the Consultants held several meetings and discussions with the relevant officials of the DFIs. The DFI interviews follow a structured questionnaire. This appraisal is presented in **Chapter 4.0.**

Component 6 of the study is to obtain the views of the private sector regarding the existing financing programs and appraising procedure of DFIs. Due to the limited time allocated for the study, for the sixth component of the study, it was only possible to cover 50 firms. The questionnaire used for the interview with SMEs. As the sample size of the interviews that were carried out was small, the results of the survey are therefore more qualitative in nature. The findings are presented in **Chapter 5.0** of the report.

Finally from the interviews with the firms and key agencies, the Study Team developed some recommendations for technical co-operation. These proposals in **Chapter 6.0** will be discussed with JICA before incorporation into the draft final report.

Chapter 2.0: Literature Review and Current Status of DFIs

2.1 Introduction

In Malaysia, Development Financial Institutions (DFIs) have played a significant role in the socio-economic development of the country. In fact, the government has envisaged that the DFIs will continue to progress and assume a more significant role in pursuing the country's policy goals for strategic, social and economic development. This vision for DFIs is clearly enunciated in the Financial Sector Master Plan (FSMP) and the recommendations are focussed towards improving the supervisory framework for DFIs in order to **enhance their effectiveness and efficiency in providing specialised financial services.**

2.2 Financial Sector Master Plan

The Malaysian financial sector has been evolving with the changing profile of the Malaysian economy. Increasing international trade and cross border activities has resulted in the need for improvement in trade financing as well as international banking facilities. Additionally the need to invest in improving physical infrastructure and other identified priority sectors had led to the setting up of **development financial institutions** to serve this purpose. Furthermore, the need for long-term domestic funds that are cost competitive has led to the development of the domestic capital market.

Given the gradual process of economic transformation and the economic opportunities that have yet to unfold, the long term objectives for the domestic financial sector will continue to take into account the needs envisioned for the economy. The objectives for the financial sector for Malaysia are therefore not necessarily similar to those of an international financial centre where rapid deregulation and liberalisation is paramount. Rather, in a developing economy, the financial system has a key role in facilitating development and therefore will need to include the needs of the other sector. Additionally, consideration has to be given to both the objectives of efficiency and stability and that of the social agenda.

All these were taken into consideration in the Financial Sector Master Plan (FSMP) which was launched in March 2001 by *Bank Negara Malaysia*.

The objective of the FSMP is:

> "To provide the blueprint for the development of an effective competitive, resilient and dynamic financial system with best practices, that supports and contributes positively to the growth of the economy through the economic cycle, and has a core of strong and forward looking domestic financial institutions that are more technology driven and ready to face the challenge of liberalisation and globalisation".

The FSMP outlines the medium and long-term strategies for the development of the financial sector. The plan sets out the plan to chart the future direction of the financial system over the next ten years that will ensure its continued **effectiveness, competitiveness and resilience.**

During the next decade, the plan envisages that Malaysia's economy will continue to expand significantly and will be increasingly integrated internationally. There will be more high-tech services, with greater reliance on small and medium-sized industries (SMIs) playing an increasing role. At the same time customers will be increasingly more differentiated and demanding. In order to ensure that domestic institutions can efficiently and effectively serve the needs of this changing economy, the financial sector, particularly its domestic institutions will need to be more focused, efficient and innovative.

The plan recognises the **need for a regulatory framework** within which the financial industry operates which is based on a supervised market approach. The regulations will then allow product innovations and market activism, while being strongly supervised by standards and prudential requirements.

Additionally, the plan acknowledges that the financial environment is increasingly moving from large one-stop financial centres to **niche providers**, of specialist services that will be competing with 'virtual' providers across most product areas.

In the light of the changes in the global financial industry, the Malaysian financial system, particularly domestic banking institutions and insurance companies will face mounting pressure to become more efficient and competitive, innovative, technology-driven, and strategically more focused. Furthermore, the financial infrastructure will have to be developed accordingly to facilitate and support this development.

This will enable the industry to face the following key challenges:

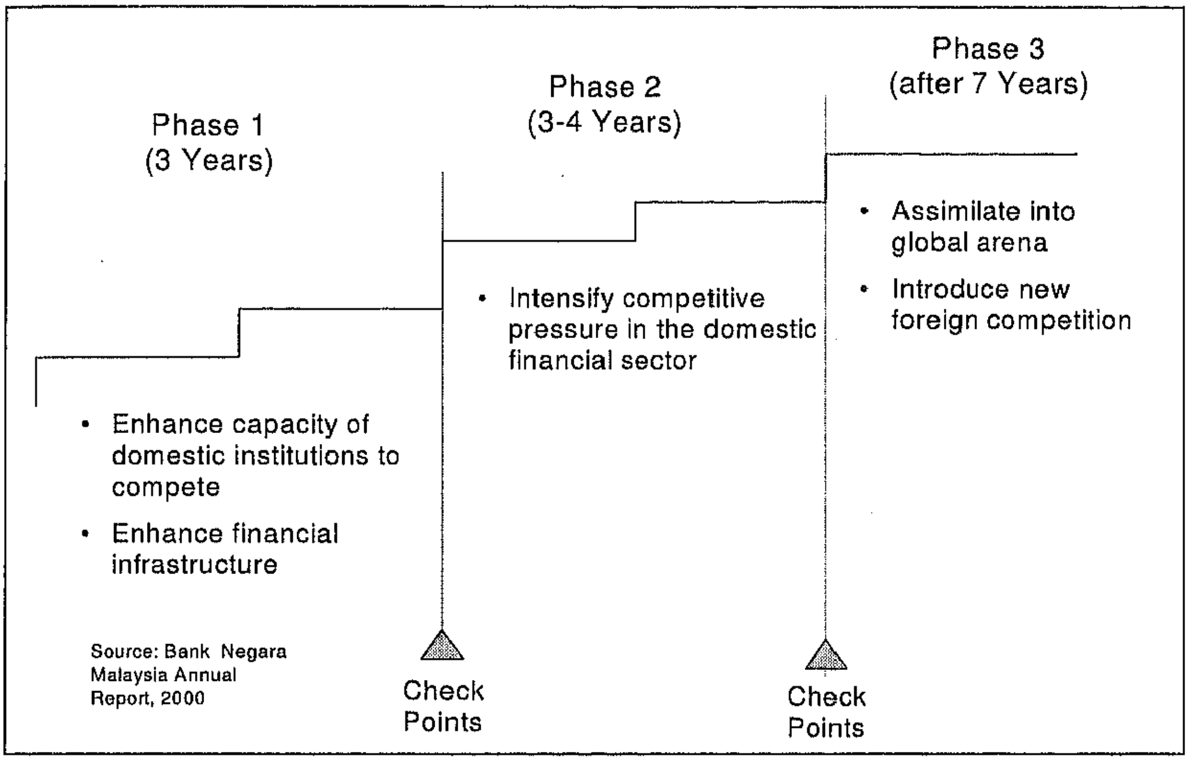
- to be at par with the best international players; and
- to ensure that performance gaps do not widen, as technology continues to drive global trends in financial services.

To stay competitive in the new environment, financial institutions in leading markets are already **leveraging on new technology**, as well as becoming increasingly global and specialised. In addition, new organisation structures and more aggressive compensation models are being used. There is also greater reliance on alliances and third party relationships. To enable all these, financial institutions are investing more in technology.

In order to instil greater dynamism and flexibility into the Malaysian financial sector, the FSMP has proposed a change programme involving 119 recommendations[3] to be implemented over the next 10 years. Implementation of the FSMP will be carried out in three phases (as shown in **Figure 2.1**).

[3] See Annex 2 for summary list of recommendations of the FSMP.

Figure 2.1: Phased Implementation of FSMP Recommendations



During **Phase 1**, the efforts will be concentrated on enhancing on measures to strengthen the capability and capacity of domestic banking institutions, to create an environment where the best domestic banking institutions emerge. At the same time, the government will be enhancing the financial infrastructure. **Phase 2** will concentrate on levelling the playing field by intensifying competitive pressure in the domestic financial sector. This will begin with the removal of some of the restrictions on incumbent foreign players to add further competition to the industry, as well as providing wider choices for the consumers. These steps however will be implemented gradually depending on the overall ability of the financial system to absorb these changes.

It is envisaged that after 7 years, the domestic financial sector should be sufficiently prepared for assimilation into the global arena and to face new foreign competition (**Phase 3**). Thus during this phase, the government will consider introducing new foreign competition. In addition, there will be expansion of domestic banking institutions to foreign markets. At the same time, the potential challenges from new and aggressive non-financial players would also serve as an incentive for incumbent players to remain competitive.

DFIs in Malaysia have been established and funded by the Government to develop and promote certain strategic sectors of the economy whilst achieving the country's social goals. The sectors currently supported by the DFIs are high-technology industries, export oriented industries, infrastructure development, and highly capital-intensive investments. In addition, they also **play a key role in the development of SMIs,** the agriculture and housing sectors.

Recognising the significant roles played by the DFIs in the socio-economic development of the country, the strategic focus for these institutions is to continue meeting the financial requirements of the economy, complementing the banking sector to ensure that the financing needs of all economic sectors are well served. This entails enhancing the efficiency and robustness of the DFIs so that the objectives are achieved with minimum cost.

The FSMP envisages DFIs to progress and assume an important role in addressing the development strategies of the Malaysian economy. Thus, the plan puts forth the following eight recommendations for DFIs to increase their capacity, effectiveness and efficiency in providing specialised financial services as shown in **Table 2.1**.

Table 2.1: FSMP Recommendations for DFIs

1	Define clearly the strategic focus and role of the DFIs
2	Enhance institutional capacities and operational structure
3	Enhance performance measurement
4	Introduce a systematic framework for sourcing funds
5	Continue Government's support to the DFIs
6	Strengthen corporate governance
7	Establish a legislative framework to provide for regulation and supervision of DFIs
8	Establish a single Regulatory and Supervisory Authority to strengthen the supervision of DFIs

In addition, the definition and specification of the functions and roles of a single supervisory authority responsible for DFIs is proposed to ensure that the activities of the DFIs are undertaken prudently, efficiently and effectively in accordance with best practices. This responsibility is addressed in the Development Financial Institutions Act 2002. In addition to providing access to financing, the value-added services provided by the DFIs to the targeted economic sectors could also be enhanced by encouraging the emergence of the DFIs as lead advisers, consultants and/or management service providers to these sectors.

As part of the strategies to promote improvement in the efficiency and effectiveness of the DFIs, a number of recommendations are proposed, focusing on measures to build the capabilities of the DFIs and to improve the supervisory framework. DFIs will continue to be relevant and important in pursuing Government policy goals for strategic, social and economic development. Towards achieving these goals, the role of DFIs needs to be clearly mandated to ensure such institutions stay focused on their core activities to complement rather than to compete with the existing banking institutions.

To manage and monitor the implementation of the recommendations of the FSMP, BNM has set up a FSMP Secretariat and a FSMP Steering Committee (FSMP SC). The **FSMP Secretariat** has drawn up a framework to monitor the implementation of the recommendations. It will also review the relevance of the recommendations against current and future developments, especially in the international markets and to monitor the progress of the DFIs and financial system in the context of attaining the specified milestones. The **FSMP SC** reviews, on a monthly basis, the progress of the FSMP recommendations. It also provides strategic directions to the FSMP Secretariat and discusses policy issues that have emerged in taking the FSMP recommendations forward for implementation.

As at the end of 2001, out of the total 119 recommendations, 22 recommendations are being implemented on an ongoing basis and runs throughout the FSMP's 10-year period, while nine or 9% of the remaining 97 recommendations have been fully implemented.

2.3 Development Financial Institutions Act 2002

Prior to the passing of the Development Financial Institutions Act (DFIA) in February 2002, DFIs were regulated and supervised by several ministries and state agencies. For instance, the Malaysian Industrial Development Finance Berhad reports to the Ministry of International Trade and Industry, while the Bank Pembangunan dan Infrastruktur Malaysia Berhad reports to the Ministry of Entrepreneur Development.

However with the enactment of the DFIA, BNM is entrusted to administer the Act. The DFIA aims to put in place a **comprehensive regulatory framework to ensure safe and sound financial management of the DFIs**. The Act takes into consideration the unique roles, functions and objectives of each DFI, the relevant provisions in the existing statutes, the current supervisory standards that are provided in the Banking and Financial Institutions Act 1989 (BAFIA) and the Insurance Act 1996. The Act aims to ensure that the policies and objectives of DFIs are consistent with the Government initiatives.

In performing its role, BNM's focus will be to promote effective and efficient DFIs, which will eventually minimise the Government cost in meeting its policy objectives. This will contribute towards realisation of the vision and objectives for DFIs in the FSMP.

The highlights of the DFIA are summarised below:

- The DFIA allows **flexible application of the Act on selected DFI** or on specific role, function and operating structure of each selected DFI thus recognising the unique characteristics of each DFI,
- BNM is appointed as the **centralised supervisory body for the DFIs** as part of the efforts to develop effective and efficient DFIs. As the centralised regulatory authority which would play a strong co-ordination role in the overall supervision of DFIs.
- The DFIA places **strong emphasis on the assessment of the efficiency and effectiveness of DFIs** in performing their roles and objectives to ensure consistency with the Government policies. The performance measurement of DFIs will encompass quantitative and qualitative indicators that evaluate the economic and social contribution as well as financial performance.
- The DFIA emphasises on **efficient management and effective corporate governance** through the appointment of qualified board of directors and senior management. Credible external auditor and transparent disclosure of information will augment this. The aim is to harness sufficient check and balance and greater accountability by the management.
- To ensure the safety and soundness of the DFIs, a formal and **comprehensive supervision framework** is required so as to minimise the need for financial assistance from the Government. The legislation incorporates prudential rules, on-site and off-site supervision, reporting requirement, disclosure standard and powers to the regulator to deal with any mismanagement and malpractice in the DFIs.
- The DFIA provides the mechanism to **strengthen the financial position of DFIs**. Prudential requirements are imposed with the aim to ensure safe and sound financial operations of DFIs, so as to be in line with the best practices of insurance companies and banking institutions.

2.4 Implementation of DFIA

As the first phase of implementation of the DFIA, six DFIs have been placed under the purview of the Act. These are:

- **Bank Pembangunan dan Infrastruktur Malaysia Berhad**
- **Bank Industri dan Teknologi Malaysia Berhad**
- Malaysia Export Credit Insurance Berhad
- Export-Import Bank of Malaysia Berhad
- Bank Kerjasama Rakyat Malaysia Berhad and
- Bank Simpanan Nasional

The above six institutions were set up and largely funded by the Government to promote identified priority sectors of the economy and to achieve social goals of the nation. The institutions play an important role in their respective areas by providing specialised financial services to complement banking institutions, which will continue to provide financial services to these sectors. Although they now under the purview of BNM, they will continue to report to their respective ministries and agencies. However the Minister (of Finance) can intervene to sort out any diferrences[4].

As BNM has only assumed its supervisory role of these six DFIs in February 2002, it is currently gathering comprehensive information on DFIs activities, assessing their current status and reviewing the respective roles and businesses of the DFIs. These broad reviews and assessments will help BNM to eventually chart out its scope of work and expedite its supervisory role effectively. Furthermore, effective from 2003, the DFIs must submit on an annual basis their corporate intent for the coming year and the funding requirement to carry out their tasks. Although no comprehensive guidelines have been outlined as yet provisions for guidelines would eventually be incorporated into the Act[5].

2.5 Financial Legal Framework

The financial legal framework for effective prudential regulation entails having broad and robust banking laws to ensure that bank supervisors can fulfil and carry out their responsibilities. The laws together with the associated rules and regulations should encompass prudential norms, disclosure, capital requirements, prudential standards, bankruptcy and foreclosure processes and taxation rules. These laws will also need to be complemented by strong enforcement to prevent fraud and other market abuses.

The legal regime in Malaysia is considered creditor friendly, giving security interest the highest possible priority. Common law rules have been well established with the Contracts Act of 1950, the National Land Code (1965) and the Companies Act (1965)[6].

Furthermore, since the mid-eighties, Malaysia has initiated efforts to strengthen the financial legal framework to enhance regulatory and supervisory capacity through the Banking and Financial Institutions Act of 1989 (BAFIA). This included the development of a more

[4] See Annex 8 for Notes of Interview with the Ministry of Finance.

[5] See Annex 8 for Notes of Interview with BNM.

[6] Source: Pistor and Wellons, 1999.

comprehensive legislative framework, risk-based management and supervisory practices, enhanced corporate governance and disclosure as well as measures which were implemented to enhance the competitiveness and efficiency of the banking system. Furthermore, prudential reforms and regulations had been continually reviewed and enhanced, while efforts to deregulate the banking sector to promote competitions and enhance efficiency of the industry were also gradually implemented.

The principal laws to regulate and supervise the financial system are vested in BNM and these legislations are summarised below:

	Legislations	Provisions
1	The Central Bank of Malaysia Act 1958 (Revised 1994)	• Provides for the administration and specify the objectives of Central Bank • Also enumerates the power and duties of Central Bank in relation to the issuance of currency, maintenance of external reserves, authorised business of the Central Bank, specific powers to deal with ailing institutions, and its relationship with Government and financial institutions. • Provides for the maintenance of a minimum external reserves backing of 80.59% against the currency issue • Empowers the Central Bank to provide temporary advances to the Government to cover any deficit in the budget revenue, subject to the following limitations: o The advances should not exceed 12.5% of the budget revenue of the Government o The advances be repaid as soon as possible and not later than three months after the end of the Government financial year in which it is granted o Additional funds cannot be made available to the Government unless the previous advances have been repaid o The Central Bank has the discretion to determine the rate of interest to be charged for its advances
2	The Banking and Financial Institutions Act 1989 (BAFIA)	• Provides for the licensing and regulation of financial institutions which conduct the business of banking, finance, merchant banking, discount houses and money broking. • Provides for the regulation of institutions which conduct scheduled businesses comprising of non-bank sources of credit and finance, such as credit and charge card companies, building societies, factoring, leasing companies and development financial institutions. • Non-scheduled institutions which are engaged in the provision of finance may also be subject to the BAFIA as the Minister of Finance may decide. • Prohibits any person from carrying out deposit-taking business unless accorded a valid license by the Minister of Finance for carrying on banking, finance company, merchant banking, and discount house business. • Auditors of licensed institutions is responsible to report to the Central Bank if he discovers any contravention of the BAFIA or any other law by the institutions, losses incurred by the institution to the extent of reducing its capital funds by 50% or more, any irregularities that could jeopardise the interests of depositors or creditors, any other serious irregularities and it is uncertain whether the claims of depositors or creditors are covered by the assets of that institution • Provides that any person wishes to enter into an agreement or arrangement to acquire or dispose any interest in the shares of a licensed local institution, both the disposer and acquirer must seek the prior written approval of the minister of Finance if the interest in shares is 5% or more • Central Bank's investigating officers are now given powers of entry, search, seizure, detention, and examination of suspects and their business associates. Information obtained by the officers may be disclosed to the police or other public officers.

	Legislations	Provisions
		• Banking institutions are required to maintain a capital according to a risk-weighted capital framework • Quantum of penalties have been greatly enhanced with fines that may be imposed can go as high as RM10 million, while imprisonment terms can range from one year to ten years. In the case where no specific penalty has been stipulated, a maximum fine of RM500,000 will be levied upon conviction, and in the case of continuing offence, a daily fine not exceeding RM1,000 can be imposed • Provides that disclosure is permitted where, amongst others: o The licensed institution's customer has given permission in writing to the institution to disclose o The customer is declared bankrupt o In the course of any court proceedings between the institution and its customer o The information relates solely to credit facilities given by a branch of a licensed foreign bank and the information is required by its head office, and o Where such disclosure is authorised under any Federal law to be made to a police, subject to certain requirements
3	The Exchange Control Act 1953	• Restricts dealings in gold and foreign currencies, payments to and from residents, issuance of securities outside Malaysia, imports and exports and settlements. • Also empowers the Controller for Foreign Exchange to grant permissions and consent on the foregoing and to enforce the provisions of the Act
4	The Islamic Banking Act 1983	• Provide for the licensing and regulation of Islamic banking business • The Act inter alia has provisions on the financial requirements and duties of an Islamic bank, ownership, control, and management of Islamic banks, restrictions on its business, powers of supervision and control over Islamic bank and other general provisions such as penalties etc.
5	The Insurance Act 1996	• Deal with the licensing of insurers, insurance brokers, adjusters and reinsurers. • Deals with setting up of subsidiaries and offices, establishment of insurance fund, direction and control of defaulting insurers, the control over management of licensee, accounts of licensee, examination and investigation powers of the Central Bank, winding-up, transfer of business of licensee. • Provides for matters relating to policies, insurance guarantee scheme fund, enforcement powers of the Central Bank, offences and other general provisions.
6	The Takaful Act 1984	• Provides for the registration and regulation of takaful business in Malaysia and for other matters relating to Takaful. • "Takaful" means a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for the purpose
7	Emergency (Essential Powers) Act 1979 and the Essential (Protection of Depositors) Regulations 1986	• An Act that give the Central Bank the powers to investigate the affairs of any person it suspects or has reason to believe is a deposit-taker • Empowers the Bank to freeze properties of the deposit-taker and other persons associated with the deposit-taker, assume control over the deposit-taker, and to appoint receivers and managers. • Also enumerates the powers of the Managers, provisions on priority of payment and cost

	Legislations	Provisions
8	The Loan (Local) Ordinance 1959	• An Ordinance to authorise the raising of loans and matters connected thereto within the Federation by the Government for the purpose of Development Fund. • The Act amongst other things appoint the Central Bank as the agent of the Government and permits the issue by way of book-entry, i.e. scripless
9	The Treasury Bills (Local) Act 1946 (Revised 1977)	• An Act to provide for the issue of Treasury Bills in Malaysia. • The Act amongst other things appoint the Central Bank as the agent of the Government and permits the issue by way of book-entry, i.e. scripless
10	The Government Investment Act 1983	• An Act to confer on the Minister power to receive investments of moneys for a fixed period and to pay dividend thereon. • The Act amongst other things appoint the Central Bank as the agent of the Government and permits the issue of the investment by way of book-entry, i.e. scripless

2.6 Status of DFIs

The Financial Services Master Plan (FSMP) lists 13 institutions as DFIs. They are:

- ***Bank Pembangunan dan Infrastruktur Malaysia Berhad***
- ***Bank Industri dan Teknologi Malaysia Berhad***
- Export-Import Bank Malaysia Berhad
- Malaysia Export Credit Insurance Berhad
- *Bank Pertanian Malaysia*
- **Malaysian Industrial Development Finance Berhad**
- Sabah Development Bank Berhad
- Borneo Development Corporation (Sabah) Sdn Bhd
- Borneo Development Corporation (Sarawak) Sdn Bhd
- **Credit Guarantee Corporation**
- Sabah Credit Corporation
- *Bank Kerjasama Rakyat Malaysia Berhad* and
- *Bank Simpanan Nasional.*

However for this study, the Study Team has focussed on four DFIs that are actively involved in providing financial assistance to SMIs, namely *Bank Pembangunan dan Infrastruktur Malaysia Berhad, Bank Industri dan Teknologi Malaysia Berhad,* Malaysian Industrial Development Finance Berhad (see **Table 2.2**), and Credit Guarantee Corporation. The other nine DFIs are engaged in other socio-economic sectors and development activities, but are not the focus areas for this study.

Table 2.2: Brief Summary of Profiles

	Bank Pembangunan & Infrastruktur Malaysia Berhad (BPIMB)	**Bank Industri dan Teknologi Malaysia Berhad (BITMB)**	**Malaysian Industrial Development Finance Berhad (MIDF)**
Year Established	1973	1979	1960
Under	Ministry of Entrepreneur Development	Ministry of Finance	Ministry of International Trade and Industry
Subsidiaries	• Pembangunan Leasing Corporation Sdn Bhd • BPMB-NIF Modal Teroka Sdn Bhd • BPMB Urus Harta Sdn Bhd • Sewaloji Sdn. Bhd. • Maju Nominees (Tempatan) Sdn. Bhd. • BPF Properties Sdn. Bhd.	• Export-Import Bank of Malaysian Berhad (Exim Bank) • Malaysia Export Credit Insurance Bhd (MECIB) • Global Maritime Ventures Berhad (GMVB)	• Malaysian Industrial Estates Berhad Group (MIEL) • MIDF Investment Holdings Sdn Bhd • MIDF Sisma Group • MIDF Consultancy and Corporate Services Sdn Bhd • MIDF Aberdeen Asset Management Sdn Bhd
Principal Activities	To encourage and accelerate the pace of *bumiputera* participation in commerce and industry. In 1999, was entrusted with the financing of the country's main infrastructure projects	To provide medium and long-term financing to capital intensive, high technology and export oriented industries, particularly to the maritime, manufacturing and export-oriented sectors.	To provide medium to long-term financing to promote industrialisation in the country
Loan Schemes Available	• Soft Loan for Machinery and Equipment, Rural Industries Programme • New Bumiputera Entrepreneur Fund • Publication Fund • Fund for Small and Medium Scale Industries • Graduate Entrepreneurs Fund • JBIC-SMI Fund (OECF) • Islamic Development Bank Fund • Fund for Filming, Drama and Broadcasting Industry • Small and Medium Industry Promotion Programme • Fund for Food • Seed Capital Scheme • Special Normal Loan (RM7) • Rehabilitation Fund for Small and Medium Scale Industries • General Fund • Fund for Medium and Large Industries • SME Tourism Fund • Tourism Infrastructure Fund	• New Entrepreneur Fund 2 • Fund for Small and Medium Industries 2 • Rehabilitation Fund for Small and Medium Industries • Bumiputera Entrepreneurs Fund • Bank Industri Fund	• New Entrepreneur Fund 2 • JBIC-Fund for Small and Medium Scale Industries • Fund for Small and Medium Scale Industries 2 • Soft Loans for Small and Medium Scale Enterprises • ASEAN-Japan Development Fund/JBIC Scheme • Small and Medium Scale Industry Promotion Program/JBIC
Branches	13 branches (Alor Star, Penang, Ipoh, Seremban, Melaka, Johor Bahru, Kuantan, K Trengganu, Kota Bahru, Kuching, Kota Kinabalu)	6 branches (Butterworth, Ipoh, Johor Bahru, Kota Bahru, Kuching, Melaka)	7 branches (Penang, Ipoh, Johor Bahru, Kuantan, Kota Bahru, Kuching, Kota Kinabalu)
Employees	545 (FYE December 2002)		213 (as at FYE March 2002)
Loans	Total: RM 6.5 billion (FYE 2001) For SMEs: RM 1.2 billion (FYE 2001)	Total: RM 4.6 billion approved	Total: RM 307 million approved (FYE 2002)

2.7 Bank Pembangunan dan Infrastruktur Malaysia Berhad (BPIMB)

Bank Pembangunan dan Infrastruktur Malaysia (Infrastructure and Development Bank) was conceived as a vehicle to encourage and accelerate the pace of *bumiputera* participation in commerce and industry. Established in 1973 as *Bank Pembangunan* (Development Bank), the Bank has since expanded in terms of financial resources, activities and geographical presence. In 1999, it was entrusted with the financing of the country's main infrastructure projects and in line with that the Bank's name was changed to *Bank Pembangunan & Infrastruktur Malaysia Berhad.* Currently, the bank operates from its Head Office and 13 other branch across country and operates under the ambit of the Ministry of Entrepreneur Development (MED).

Although BPIMB's financing scope encompasses mega projects under the infrastructure sector, the Bank accords equal importance to SMI financing. For the year 2000, BPIMB approved 294 loans (or 74.1% of the total number of loans approved) to SMIs. The New Entrepreneur Fund (NEF) recorded a total of 109 approvals valued at RM64.1 million, while loans under the Japan Bank for International Co-operation – Small and Medium Industry Fund (JBIC-SMI Fund) recorded 52 approvals valued at RM87.4 million.

The financial services offered by BPIMB include **Project Financing**, encompassing fixed asset financing and working capital financing and **Share Financing** for equity participation in a company by a shareholder, investor or entrepreneur. BPIMB also supports the **Franchise Programme** by providing financial assistance to selected *bumiputera* entrepreneurs. In addition, the Bank also supports the **Vendor Participation Programme** in which the Bank act as a financier to participating small and medium manufacturers supplying components to major manufacturing and anchor companies. BPIMB provides special loan schemes including those specially targeted for SMEs. The list of special loan schemes managed by BPIMB is shown in **Table 2.3.**

Table 2.3: Special Loan Schemes under BPIMB

1.	Soft Loan for Machinery/Equipment, Rural Industrial Programme
2.	New Bumiputera Entrepreneur Fund
3.	Publication Fund
4.	Fund for Small and Medium Scale Industry
5.	Graduate Entrepreneurs Fund
6.	JBIC-SMI Fund (OECF)
7.	Islamic Development Bank Fund
8.	Fund for Filming, Drama and Broadcasting Industry
9.	Small and Medium Industry Promotion Programme
10.	Fund for Food
11.	Seed Capital Scheme
12.	Special Normal Loan – RM7
13.	Rehabilitation Fund for Small and Medium Scale Industries
14.	General Fund
15.	Fund for Medium and Large Industries

At the recent Budget 2003, the Government announced that BPIMB been entrusted to disburse two new funds namely the RM400mil **SME Tourism Fund** (SMET) and the RM200mil **Tourism Infrastructure Fund** (TIF). SMET is the first tourism fund allocated for *bumiputera* entrepreneurs in the small- and medium-sized industries related to the tourism industry, including those involved in the expansion and renovation of hotels and motels and the purchase of transport vehicles and recreational vehicles and equipment.

2.8 Bank Industri dan Teknologi Malaysia Berhad (BITMB)

Initially established in August 1979 by the Minister of Finance Incorporated, as *Bank Kemajuan Perindustrian Malaysia Berhad* (Industrial Development Bank), the bank was set up to provide medium and long-term financing to capital intensive, high-technology and export-oriented industries, particularly to the maritime, manufacturing and export-oriented sectors. During its early years the bank concentrated its activities on the domestic shipping and shipyard industries, but soon the scope of financing was expanded to the engineering industry which included the E&E sectors. To encourage and support these industries, the bank introduced short- and medium-term financing schemes. It also expanded its activities to other growth sectors including pharmaceutical, materials technology, food processing and indigenous technology. In 1996, the Bank took firm steps to play a key role to upgrade SMIs through promoting and nurturing indigenous technology development.

The bank takes an active catalytic role in supporting the continuous growth of manufacturing activities. Facilities offered are geared towards assisting start-ups and expansion or upgrading of on-going operations. BITMB aims to provide strategic financing facilities in order to spearhead the industrialisation process by:

- encouraging the growth of capital intensive and high technology industries
- developing the supportive industries which provide the linkages to major industries
- promoting the creation of new entrepreneurs and upgrading existing entrepreneurs
- encouraging *bumiputera* entrepreneurship in SMIs

BITMB also offers various Islamic-financing facilities, which are based on the principles of Syariah. In addition, the Ministry of Finance has appointed the bank to act as one of the national agents to promote Islamic Development Bank of Jeddah's (IDB) facilities in Malaysia, as well as to become the guarantor for the companies utilising the facilities from IDB. The Islamic financing facilities offered include Import Trade Financing Facility (*Muharabah*), Export Financing Scheme (*Muharabah*), Instalment Sale (*Bai Bithaman Ajil*), and Leasing (*Ijara*). BITMB also provides special loan schemes specially targeted for SMEs. The list of special loan schemes managed by BTIMB is shown in **Table 2.4**.

Table 2.4: Special Loan Schemes under BITMB

1.	New Entrepreneurs Fund 2
2.	Fund for Small and Medium Industries 2
3.	Rehabilitation Fund for Small and Medium Industries
4.	JBIC-SMI Fund
5.	Bumiputera Entrepreneurs Fund
6.	Bank Industri Fund

2.9 Malaysian Industrial Development Finance Berhad (MIDF)

Established in 1960, Malaysian Industrial Development Finance Berhad (MIDF) was incorporated as a public company to provide medium to long-term financing to promote industrialisation in the country. To support its objectives and activities, MIDF established several subsidiaries:

- In 1964 MIDF established its first wholly owned subsidiary, Malaysian Industrial Estates Berhad (MIEL) to spearhead industrial development through the development of industrial building projects. The first industrial building project at Mak Mandin Industrial Estate, Phase I, Penang was completed in March 1966.
- In 1971, MIDF set up its merchant banking arm - Malaysian International Merchant Bankers Berhad (MIMB) in which MIDF had 26% equity.
- In November 1971, MIDF established MIDF Industrial Consultants Sdn Bhd (MIDFIC) as its second wholly owned subsidiary. This was restructured in 1983 and renamed MIDF Consultancy and Corporate Services Sdn Bhd (MIDFCCS) with the share issue and share registrar operations transferred into it from MIDF.
- A third wholly owned subsidiary, MIDF Investment Holdings Sdn Bhd (MIDFIH) was established in March 1983.
- In December 1996 MIDF received an approval in principle for a stockbroking licence from the Ministry of Finance and a stockbroking company MIDF Sisma Securities was established.

Thus under its umbrella, MIDF have the country's largest industrial estate developer (Malaysian Industrial Estates Bhd), a corporate services company which is the first issuing house in the country (MIDF Consultancy and Corporate Services Sdn Bhd), an investment holding company (MIDF Investment Holdings Sdn Bhd), a stockbroking company (MIDF Sisma Securities Sdn Bhd) and an asset management company (MIDF Aberdeen Asset Management Sdn Bhd). Today MIDF is Malaysia's first and only DFI to be listed on the Kuala Lumpur Stock Exchange. Since its inception, MIDF has granted more than 5,600 loans and leases worth RM6.7 billion.

MIDF provides medium- and long-term financing of new fixed assets (machinery and factory building). Loans are available to all new industrial ventures and to existing companies, which are modernising and/or expanding their operations. The facilities are tailored to the specific needs of each individual borrower, whether small, medium, or large, domestic or foreign controlled, so long as the manufacturing operation is in Malaysia. For SMEs, currently MIDF manages the following Special Loans Schemes:

- New Entrepreneurs Fund 2 (NEF2)
- Japan Bank for International Co-operation/Fund for Small and Medium Scale Industries (JBIC/FSMI)
- Fund for Small and Medium Industries 2 (FSMI2)
- Soft Loans for Small and Medium-scale Enterprises
- ASEAN-Japan Development Fund/JBIC Scheme (AJDF/JBIC)
- Small and Medium-scale Industry Promotion Program/JBIC Fund (SMIPP/JBIC)

2.10 Credit Guarantee Corporation (CGC)

The CGC was established in 1972 with *Bank Negara Malaysia* and all the commercial banks as its shareholders. The current shareholders are *Bank Negara Malaysia* and all the commercial banks and finance companies operating in the country.

The objective of the CGC is to assist small and medium-sized enterprises (SMEs) especially those with inadequate collateral or without collateral or track record to gain ready access to credit. This to complement the efforts of the government in promoting and developing businesses in priority sectors (food production and processing, tourism, industries identified by the Ministry of International Trade and Industry and all businesses with net assets or shareholders' funds of less that RM 500,000).

The role of CGC is to formulate and manage viable credit guarantee schemes with the participation of the lending institutions. For this, CGC works through the network of more than 2,600 branches of the commercial banks and finance companies currently operating in the country. CGC helps SMEs by providing guarantee cover for partly secured as well as unsecured credit facilities of up to RM10 million for manufacturing sector, RM7.5 million for priority sector and RM5million for other sectors. The various CGC guarantee schemes therefore help SMEs to obtain financing up the amount required.

CGC assists businesses in agriculture, manufacturing, construction, wholesale and retail trade or services. Thus, farmers, hawkers, petty traders, or businesses that are sole proprietorships, partnerships or limited companies are eligible for assistance.

2.11 Other DFIs

The background information of the other DFIs which are not the focus institutions for this study is summarised in **Annex 3**.

2.12 Institut Bank-Bank Malaysia (IBBM)

Established in 1971 Institut Bank-Bank Malaysia (IBBM) is the professional education and training institution of the banking and financial services industry in Malaysia. It also acts as the secretariat for administering the Staff Training Fund (STF) which was established by BNM since 1985 to create a training fund for financial institutions that fall under BAFIA.

Although DFIs are not governed by BAFIA, five DFIs, namely *Bank Kerjasama Rakyat Malaysia Berhad, Bank Pembangunan dan Infrastrucktur Berhad*, Export-Import Bank of Malaysia Berhad, Malaysian Industrial Development Finance Berhad and Sabah Development Bank Berhad, are institutional members of IBBM and they utilise IBBM to provide training. Furthermore, three other DFIs who are not insitutional members of IBBM also utilise IBBM training programmes.

Other background information on IBBM together with the notes of the interview is summarised in **Annex 8**.