Annex 5: Questionnaire for DFIs

A BACKGROUND

A1. Name of Institution : ______________________

A2. Address : ______________________
____
____

A3. Name of Respondent : ______________________

A4. Position/Rank : ______________________

A5. Contact : Telephone : ______________
Facsimile : ______________
E-mail : ______________

B STRATEGIC PLANNING

B1. Policy Formulation

B1.1 Kindly state in broad terms the mission of your institution:

____
____
____

B1.2 In what terms are these mission and goals formulated?

[ ] Qualitative terms [ ] Quantitative terms

B1.3 What are the funding programmes currently available in your institution (highlight those that are targeted to SMEs)?

Programmes	Objectives

B1.4 What is the definition of SMEs used by your institution?

____
____

B1.5 Are the potential SME beneficiaries selected based on specific criteria?

[ ] Yes (specify: ____)

[ ] No

B1.6 How is the SME portfolio framed?

[ ] Overall ringgit loan target

[ ] Number of loans booked

[ ] Risk-return profile

[ ] Industry spread

[ ] Industry targets

[ ] Others (specify: ____)

B1.7 Is the generation of surplus a financial goal of the institution as far as its provision of financial assistance for SME development is concerned?

[ ] Yes (How is this quantified________________________________)

[ ] No

B1.8 What is the future role of this institution in the next 3-5 years?

____

____

B2 Communication and Review

B2.1 How often and by whom are the following reviewed:

	How often	By whom review is done
Policy issues		
Goals		
SME targets		
Institution performance		

B2.2 What are the objectives of the review: ____

____

____

B2.3 How are the performances and achievements measured: ____________________

____

____

B2.4 How are policy initiatives and product programmes communicated to the implementing executives: ____

____

____

B2.5 Are implementing executives involved in the performance review of the institution?

[ ] Yes (How: ______________________________)

[ ] No (Why: ______________________________)

B3 Risk-Return Management

B3.1 Performance trend of the institution:

Year	Number of loans made		Amount (RM mil)		Non-Performing (% on # of loans)	
	Overall	SMEs	Overall	SMEs	Overall	SMEs
1995						
1996						
1997						
1998						
1999						
2000						
2001						

B3.2 How is the risk-return managed in the institution: ______________________________

____

____

B3.3 Who in the institution is involved in the following risk-return portfolio:

Formulating exercise : ______________________________

Monitoring exercise : ______________________________

Reviewing exercise : ______________________________

Corrective action : ______________________________

B3.4 Current profile of the institution's customers:

	Loans Approved		**Loans Outstanding**		**Non-performing Loans**	
	No.	**RM**	**No.**	**RM**	**No.**	**RM**
By Industry:						
Agriculture related						
Manufacturing						
Construction						
Utilities						
Services						
By business type:						
Sole-Proprietor/ Partnership						
Private Limited						
Public Limited						

B4. Assistance Useful For Strategic Planning Phase

B4.1 Which areas would you like to see improvement and why?

	Areas for Improvement	**Reason**
Policy Formulation		
Policy Communication		
Policy Review		
Risk-Return Management		

B4.2 Which areas could do with external assistance?

	Areas for external assistance	Why need external assistance	What do you hope to achieve
Policy Formulation			
Policy Communication			
Policy Review			
Risk-Return Management			

C. ACQUISITION

C1. Publicity/Business Development

C1.1 How do you market your financial products and services?

[ ] Setting up special counters to market product and services

[ ] Pamphlets and Brochures

[ ] Own Website

[ ] Advertisement in Media (TV, Newspaper, Magazines)

[ ] Advertisement in Internet

[ ] Promotions

[ ] Others (specify: ______________________________)

C1.2 What level of information on policy guidelines and documentation are made available to the business development and marketing staff: ______________________________

____

____

C1.3 How adaptable or flexible are the guidelines for the marketing staff to package a deal:

____

____

____

C1.4 Are your marketing staff involved in policy and guideline reviews?

[ ] Yes (How: _______________)

[ ] No (Why: _______________)

C1.5 Are financial targets allotted to marketing staff?

[ ] Yes (Explain: _______________)

[ ] No (Why: _______________)

C1.6 Does the institution undertake cross selling of other institutions' SME packages?

[ ] Yes

[ ] No

C2. Credit Evaluation and Analysis

C2.1 How is the credit processing flow in your institution?

[ ] Fully automated

[ ] Partly automated (explain: _______________
_______________)

C2.2 What are the basic documents required for processing a loan: _______________

____

____

C2.3 How is the credit worthiness of the applicant assessed and what information or data utilized to determine credit eligibility: _______________

____

____

C2.4 What is the importance of the following in credit evaluation:

Factors	Describe factors	Degree of Importance
Qualitative factors		
Quantitative factors		

C2.5 What role does the following play in the credit evaluation process?

Financial Accounts (historical): ______________________

Financial Accounts (projected): ______________________

Cash flow analysis: ______________________

C2.6 Does the institution employ a schematic credit-scoring framework?

[ ] Yes [ ] Normative framework

[ ] Empirically

[ ] No

C2.7 Who conducts the credit evaluation: ______________________

C2.8 How long does it take to complete a credit evaluation process: ______________________

C3. Credit Structuring and Negotiation

C3.1 How is the funding requirement of the customers determined?

[ ] By customers (explain: ______________________)

[ ] By internal staff (explain: ______________________)

C3.2 Is your marketing staff trained to package the facility for the customer?

[ ] Yes, they can independently structure a financial package

[ ] No (explain: ______________________)

C3.3 What are the usual terms and conditions employed by your organization in mitigating credit risk during the structuring and packaging of credit facilities:

____

C4. Credit Approval

C4.1 Who are involved in the approval of loan applications: ______________________

____

C4.2 Is there loan approval limit delegated to different signatories?

[ ] Yes (explain: ______________________)

[ ] No

C4.3 How long does it take to approve a loan after submission of the application form:

____

C4.4 How long does it take to reject a loan after submission of the application form:

____

C4.5 What have been the historical and current rates of approval in relation to applications received: ______________________

C4.6 What have been the historical and current rates of conversion of approved facility to actual disbursement or draw-down: ______________________

C5. Credit and Legal Documentation

C5.1 How long would it normally take for the legal and credit documentation after a loan is granted: ______________________________

C5.2 Once the approval has been granted, what are the standard follow-up procedure or action needed before funds can be disbursed or drawn down: ______________

____

C6. Assistance Useful For Acquisition Phase

C6.1 Which areas would you like to see improvement and why?

	Areas for Improvement	Reason
Business Development		
Credit Evaluation & Analysis		
Credit Structuring & Negotiation		
Credit Approval		
Credit and Legal Documentation		

C6.2 Which areas could do with external assistance?

	Areas for external assistance	Why need external assistance	What do you hope to achieve
Business Development			
Credit Evaluation & Analysis			
Credit Structuring & Negotiation			
Credit Approval			
Credit and Legal Documentation			

D. ADMINISTRATION & MAINTENANCE

D1. Account Administration and Monitoring

D1.1 Who monitors and supervises the account after loan has been disbursed: ______________

____

D1.2 What follow-up action is taken in monitoring the account: ______________

____

____

D2. Account Collection & Recovery

D2.1 Does the institution have a schematic approach for account collection and recovery?

[ ] Yes (explain: ______________________________)

[ ] No (explain: ______________________________)

D2.2 When is an account deemed delinquent?: ______________

____

D2.3 What action is normally taken in managing delinquent account: ______________

____

____

____

D2.4 How long does it normally take to review and make a decision on corrective action on problem accounts: ______________

D2.5 Are there any rehabilitation funds available to assist companies with non-performing loan with your organization: ______________

D2.6 When would the institution terminate the business relationship with the customer:

____

____

D2.7 When is a delinquent account written off: ______________

____

____

D2.8 What is the authority of the following in the area of credit control?

Branch Manager: ______________

Regional Manager: ______________

D3. Assistance Useful For Accounts Administration and Maintenance Phase

D3.1 Which areas would you like to see improvement and why?

	Areas for Improvement	Reason
Accounts Administration and Monitoring		
Accounts Collection and Recovery		

D3.2 Which areas could do with external assistance?

	Areas for external assistance	Why need external assistance	What do you hope to achieve
Accounts Administration and Monitoring			
Accounts Collection and Recovery			

E. TRAINING

E1 Current Status Of Training Programmes

E1.1 What have been training budgets in the last three years: ______________________

____

E1.2 How much budget is spent on:

Soft skills training [%]

Hard skills training [%]

E1.3 How much budget is allocated for:

Clerical training [%]

Officers/Executives training [%]

Managers training [%]

E1.4 How much budget is spent on:

In-house training [%]

External training [%]

E1.5 What is the general profile of your trainers:

Academics [%]

Practicing Bankers [%]

Professionals In Business [%]

Other Professionals [%]

E1.6 To what extent does your organization use foreign consultants in your training programmes: ____________________

E1.7 Are there and have there been any issues with your organization over foreign trainers' overseas experience and their application and relevance to the local conditions?

____

____

E2 Assistance Useful For Training

E2.1 Which areas would you like to see improvement and why?

	Areas for Improvement	**Reason**
Human Resource Development Planning		
Training Programmes For Personnel		

E2.2 Which areas could do with external assistance?

	Areas for external assistance	**Why need external assistance**	**What do you hope to achieve**
Human Resource Development Planning			
Training Programmes For Personnel			

Annex 6: SMI Survey Questionnaire

A BACKGROUND INFORMATION

A1. Name of Company : ______________________________

A2. Address of Company : ______________________________

____

____

A3. Name of Respondent : ______________________________

A4. Position/Rank : ______________________________

A5. Contact : Telephone : ______________________

Facsimile : ______________________

E-mail : ______________________

A6. Type of Industry : [ ] Manufacturing

[ ] Service Industry

Please describe company's main products/activities: ______________________

____

A7. Year established : _____

A8. Ownership Structure (*please tick ✓ one*)

[ ] 100% locally owned

[ ] Majority locally owned

[ ] 50:50 local-foreign joint venture

[ ] Majority foreign owned (please specify the nationality of foreign owner) ________

[ ] 100% foreign owned (please specify the nationality of foreign owner) ________

A9. Paid-up Capital : RM ____________________

A10. Current Employment Size (# of workers): __________

A11. Turnover for the last business year (RM Million) ____________ (year? _____)

B FINANCING EXPERIENCES

B1. Have you **applied** for SME loans/guarantee schemes through the following? (*please tick ✓ all applicable*)

[ ] Development Financial Institutions (DFIs) (*see B2 for list of DFIs*)

[ ] Commercial Banks (Specify: ______________________________)

[ ] Leasing Companies (Specify: ______________________________)

[ ] Others (Specify: ______________________________)

B2. If you have **applied** for SME loans/guarantee schemes from Development Financial Institutions, indicate from which DFI. (*please tick ✓ all applicable*)

[ ] 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

[ ] Bank Simpanan Nasional

B3. What was the purpose of the loan application? (*please tick ✓ all applicable*)

[ ] Upgrading current business (Machinery/Equipment etc)

[ ] Expansion of factory/land for current business

[ ] Purchase of New Machinery/Equipment

[ ] Purchase of New Land/Factory

[ ] Operating Expenses for Expansion of Business

[ ] Stock/Raw Materials Purchase and Cashflow

[ ] Acquiring New Technology

[ ] Acquisition of Other Company (related industry)

[ ] Others (Specify: ______________________________)

B4. Type of SME loan/guarantee programs applied (please tick ✓ all applicable and indicate participating financial institution):

Please ✓	Loan/Guarantee programs applied	DFIs/Banks
	New Entrepreneurs Fund	
	New Entrepreneurs Fund 2	
	Rehabilitation Fund for SMIs	
	Fund for SMIs	
	Fund for SMIs 2	
	Fund for Food	
	Bumiputera Entrepreneur Project Fund	
	Entrepreneur Rehabilitation & Development Fund	
	Soft Loan Scheme	
	Financial Package for SMIs (PAKSI)	
	Modernisation and Automation Scheme (MAS)	
	Quality Enhancement Soft Loan Scheme (QES)	
	Small Entrepreneur Guarantee Scheme	
	Flexi Guarantee Scheme	
	New Principal Guarantee Scheme	
	Direct Access Guarantee Scheme	
	Franchise Financing Scheme	
	I-Guarantee	

B5. Have you ever been unsuccessful in your SME loan applications?

[ ] Yes (please give details below) [ ] No

____

____

____

B6. Detailed Information on Borrowings

No.	Type of Loan	Date Borrowed	Amount Borrowed	Length of Application (in days)	Conditions/ Requirements	Interest charged	Repayment Period

C APPRAISAL OF FINANCIAL INSTITUTIONS

C1. Loan terms and conditions

	DFIs	Commercial Banks	Leasing Companies	Others
Interest Rates	[ ] High [ ] Fair [ ] Low	[ ] High [ ] Fair [ ] Low	[ ] High [ ] Fair [ ] Low	[ ] High [ ] Fair [ ] Low
Loan Conditions	[ ] Rigid [ ] Standard [ ] Flexible	[ ] Rigid [ ] Standard [ ] Flexible	[ ] Rigid [ ] Standard [ ] Flexible	[ ] Rigid [ ] Standard [ ] Flexible

C2. Approval process and procedures

	DFIs	Commercial Banks	Leasing Companies	Others
Documentation process	[ ] Fast [ ] Fair [ ] Slow	[ ] Fast [ ] Fair [ ] Slow	[ ] Fast [ ] Fair [ ] Slow	[ ] Fast [ ] Fair [ ] Slow
Approval process	[ ] Fast [ ] Fair [ ] Slow	[ ] Fast [ ] Fair [ ] Slow	[ ] Fast [ ] Fair [ ] Slow	[ ] Fast [ ] Fair [ ] Slow
Application conditions	[ ] Rigid [ ] Standard [ ] Flexible	[ ] Rigid [ ] Standard [ ] Flexible	[ ] Rigid [ ] Standard [ ] Flexible	[ ] Rigid [ ] Standard [ ] Flexible

C3. What would you like to see with loan terms and conditions?

____

____

C4. What would you like to see with loan approval process and procedures of DFIs?

____

____

C5. Any other recommendations or comments?

____

____

Annex 7: List of Firms Interviewed

Annex 7A: Government Agencies/DFIs

Date	Organisations	Name/Position	Contact
August 5, 2002	*Bank Negara Malaysia* Development Financial Institution Regulation Department Jalan Dato' Onn, PO Box 10922 50929 Kuala Lumpur	Che Zakiah Che Din Director	Tel: 603-26989167 Fax: 603-26987542 Email: chezakiah@bnm.gov.my
		Puan Asiah Hashim Senior Manager	Tel: 603-26946329 Fax: 603-26987542 Email: asiah@bnm.gov.my
		Puan Nor Aminah Jabar Senior Executive	Tel: 603-26988044 Ext 8434 Fax: 603-26987542 Email: noramina@bnm.gov.my
	Bank Negara Malaysia SME Taskforce Jalan Dato' Onn, PO Box 10922 50929 Kuala Lumpur	Puan Norainy Mohd Sahid Project Head	Tel: 603-26913630 Fax: 603-26943872 Email: nisa@bnm.gov.my
		Puan Faudziah Abdul Rahim Manager	Tel: 603-26907683 Fax: 603-26987981 Email: faudziah@bnm.gov.my
August 5, 2002	*Bank Pembangunan dan Infrastruktur Berhad* (Development and Infrastructure Bank) Menara Bank Pembagunan Jalan Sultan Ismail P O Box 12352 50774 Kuala Lumpur	Hjh Rokiah Rajak, Manager, Corporate Planning Department	Tel: 603-26152185 Fax: 603-26947957 Email: r.rokiah@bpimb.com.my
		Abdul Malek Mohd Din, Head, Project Supervision, KL Branch	Tel: 603-26152937 Fax: 603-26988077 Email: malek@bpimb.com.my
		Hjh Azlina Hj. Ahmad, Head, Marketing & Credit Unit, KL Branch	Tel: 603-26152936 Fax: 603-26988762 Email: azlina@bpimb.com.my
August 6, 2002	*Bank Industri dan Teknologi Malaysia Berhad* (Technology and Industry Bank of Malaysia) Bangunan Bank Industri Bandar Wawasan 1016 Jalan Sultan Ismail Kuala Lumpur	Nik Abdullah Shukri Nik Mustapha, Head, Group Corporate Planning	Tel: 603-26929979 Fax: 603-26926594 Email: nikshukri@bankindustri.com.my
		Zamros Dzulkafli, Assistant Manager, Group Strategy & Performance	Tel: 603-26128500 ext.1136 Fax: 603-26926594 Email: zamros@bankindustri.com.my

Date	Organisations	Name/Position	Contact
August 8, 2002	Credit Guarantee Corporation (CGC) Berhad Level 13-16, Bangunan CGC Kelana Business Centre 97 Jalan SS7/2 47301 Petaling Jaya	Mr Khoo Khim Ho Assistant General Manager	Tel: 603-78062300 Fax: 603-78063308
August 12, 2002	Malaysian Industrial Development Finance Bhd 195A Jalan Tun Razak, 50400 Kuala Lumpur Tel: 603-21611166	Mr Khoo Chin Guan, General Manager – Services	Tel: 603-21613929 Fax: 603-21629531 Email: cgkhoo@midf.com.my
		Mr Abdul Muis Hassan, General Manager - Operations	Tel: 603-21610132 Fax: 603-21629531 Email: muis@midf.com.my
		Mr Wang Leong Heng, Asst General Manager (Loan Supervision)	Tel: 603-21611746 Fax: 603-21628445
		Mr Ahmad Radzi Abd Majid, Asst General Manager (Projects)	Tel: 603-21613936 Fax: 603-21613906 Email: radzi@midf.com.my
		Ms Tan Chek Yiang, Manager Research Business Development Division	Tel: 603-21604268 Fax: 603-21613906 /21615973 Email: yiang@midf.com.my
October 30, 2002	Institut Bank-Bank Malaysia (IBBM) Wisma IBI, No 5 Jalan Semantan Damansara Heights 50490 Kuala Lumpur	Dr Tan Keng Song Director Puan Noridah	Tel: 603-2095 8922 Fax: 603-2095 7822 Email: kstan@ibbm.org.my
November 12, 2002	Ministry of Finance Market Supervision Section (Sekyen Kawalselia Pasaran) 5th Floor (Centre) Precinct 2, Federal Government Administrative Centre, 62592 Putrajaya	Mr Hasan Ismail Deputy Secretary	Tel: 603-88823553 Fax: 603-88823579 Email: hasan@treasury.gov.my
		Che Yusof Che Mat Principal Assistant Secretary Bank Industry Unit	Tel: 603-88823517 Fax: 603-88823579 Email: ycm@treasury.gov.my

Annex 7B: SMEs Surveyed

Date	Organisations	Name/Position	Contact
August 20, 2002	Sanled Sdn.Bhd. Plot 540, Lorong Perusahaan 6A Prai Industrial Estate, 13600 Prai, Penang	Mr. Hui Shing Leong Director	Tel: 604-3993188 Fax: 604-3904941 Email: huisl@pl.jaring.my
August 22, 2002	NKK Equity Sdn Bhd No.28, Jalan 30B/146, Desa Tasik, Sungai Besi, 57000 Kuala Lumpur	En. Halim Jaafar Accounts Executive	Tel: 603-90587617 Fax: 603-90587861 Email: nkkequity@po.jaring.my
August 23, 2002	Micatron Sdn Bhd 5 & 7, Jalan IKS, Juru, 14100 Simpang Ampat, Seberang Perai Tengah, Penang	Mr Wong Weng Seng Managing Director	Tel: 604-5074775 Fax: 604-5083623 Email: micatron@tm.net.my
August 23, 2002	Reniplas Sdn Bhd 21, Jalan TSB 2, Taman Industri Sg. Buloh, 47000 Sg. Buloh, Selangor	Mr. Nip Ah Kau Manager	Tel: 603-61575973 Fax: 603-61575978
August 23, 2002	Oceancash Non-Woven S/B Lot 19-3, Jalan Satu, Bersatu Industrial Park, Cheras Jaya, Balakong 43200 Cheras, Selangor	Mr. Mah Yit Mui Finance Manager	Tel: 603-90757791 Fax: 603-90747692
August 24, 2002	Imagescan Creative S/B Lot 3075, Jalan Pandan Indah, 55100 Kuala Lumpur	Mr. Oot Chin Whatt Finance Manager	Tel: 603-78766132
August 24, 2002	Allied Hori Sdn Bhd Lot 8, Rawang Integrated Industrial Park 48000 Rawang, Selangor	Mr Ian Leong Managing Director Ms Wai Yee Finance Manager	Tel: 603-60915836 Fax: 603-60912479 Email: waiyee@ahori.po.my
August 24, 2002	Jafiznah Engineering S/B No.5B, Jalan PU 12, Petaling Utama, Batu 7, Jalan Kelang Lama, 46000 Petaling Jaya, Selangor	En. Asnan Ibrahim General Manager	Tel: 603-77858695 fax: 603-77858699 Email: mujurunik@hotmail.com
August 26 2002	Diversified Furniture Systems Lot 1 Jalan 6/3 Kawasan Perusahaan Seri Kembangan 43300 Seri Kembangan Selangor	Mr Harry Oh Senior Manager	Tel: 019-2287767 Fax: 603-89463301 Email: harryoh@pc.jaring.my

Date	Organisations	Name/Position	Contact
August 26, 2002	Stellar Arena Sdn Bhd Lot F105, 1st Floor, City Square Centre, 182, Jalan Tun Razak, 50400 Kuala Lumpur	Puan Nazli binti Abdullah Manager	Tel: 603-27700166 Fax: 603-27700166
August 27 2002	Technomaxim Engineering Sdn Bhd Unit 158, eUREKA Complex, USM Penang	Mr Chan Kim Hoon General Manager	Tel: 604-6577888 Ext 2395 Fax: 604-6551189 Email: khchan@technomaxim.com
August 27 2002	Tag Steel Sdn Bhd Plot 372, Lorong Perusahaan 10 Prai Industrial Estate 13600 Butterworth, Penang	Mr David Lim Director	Tel: 604-3999712/713 Fax: 604-3999714 Email: tagsteel@tm.net.my
August 28 2002	Silver Plus Sdn Bhd 10 Lintang Beringin 8, Mk 12 Off Jalan Pematang Damar Laut 11960 Bayan Lepas, Penang	Mr Teoh Cheng Hock Managing Director	Tel: 604-6262540 Fax: 604-6264739
August 28 2002	Sun Rubber Industry Sdn Bhd 53, Senawang Industrial Estate, 70450 Seremban, Negeri Sembilan	Mr. Steven Gan Seng Poe Managing Director	Tel: 606-6771711 Fax: 606-6777872
August 29 2002	Pipesway Furniture Sdn Bhd 7936, Tingkat Selamat 8, Kampung Selamat, 13300 Tasek Gelugor Seberang Perai Utara	Mr. Lim Chei Chu Managing Director	Tel: 604-5735108 Fax: 604-5735109 Email: pf@pipesway.com
August 29, 2002	Aimwood Furniture Industries Sdn Bhd Lot 6477, Batu 5 ¾, Jalan Kapar, 41000 Klang, Selangor	Mr. Yew Poh Seng General Manager	Tel: 603-32912001 Fax: 603-32902812
August 29 2002	Megafoam Containers Enterprise Sdn Bhd Lot 6015, Jalan Haji Salleh Off Jalan Meru 41050 Klang, Selangor	Ms Irene Wong Managing Director	Tel: 603-33928018 Fax: 603-33928200
August 30, 2002	Alpha Zeg Corp. Sdn Bhd GC035, Ground Floor, Block C, Kelana Square, Jalan SS 7/26, 47301 Petaling Jaya, Selangor	En. Mohamad Fuad Mohd Nasir Project Executive	Tel: 603-78037068 Fax: 603-78030399 Email: reena78yh@yahoo.com

Date	Organisations	Name/Position	Contact
August 30, 2002	Izumitech (M) Sdn Bhd 36, Jalan Seruling 58, Taman Klang Jaya 41200 Klang, Selangor	Mr. Tetsuo Kawamura Managing Director	Tel: 603-33243001 Fax: 603-33236496 Email: izmitech@tm.net.my
September 2, 2002	GMS Purnaimpex Sdn Bhd Lot 3, Taman Perindustrian Masalam, Batu 17, Jalan Ipoh 48000 Rawang, Selangor	Dr C Baskaran Managing Director	Tel: 603-69026020 Fax: 603-60926002 Email: gmsp@tm.net.my
September 2, 2002	Poly-Yarn Industries S/B Lot 3977, Jalan Kebun Sayur, Bukit Bakri 84200 Muar, Johor	Ms Goh Siew Hueh Asst. Admin Manager	Tel: 606-9860996 Fax: 606-9866132
September 2, 2002	Range Pharma Sdn Bhd No.1, Jalan TSB II, Taman Industri Sg Buloh, 47000 Sg. Buloh, Selangor	Mr. Tan Hong Leong Managing Director	Tel: 603-61568708 Fax: 603-61568708 Email: rangeco@tm.net.my
September 2, 2002	Arah Dagang Sdn Bhd No. 10, Jalan Jasmin 3, Seksyen BB10, Bandar Bukit Beruntung 48300 Rawang, Selangor	Mr. Low Teck Soon Managing Director	Tel: 603-60281863 Fax: 603-60282863
September 3, 2002	Siang Poh Knitting Sdn Bhd Lot 14, Rawang Integrated Industrial Park, 48000 Rawang, Selangor	Mr. Phang Wah Seng Manager	Tel: 603-60926888 Fax: 603-60926868 Email: spknit@tm.net.my
September 3, 2002	Enda Food Industries S/B PT4088, Kaw. Perindustrian Pengkalan Chepa II 16100 Kota Bharu, Kelantan	Mdm. Chan Gek See Director	Tel: 609-7747854 Fax: 609-7749854
September 4, 2002	S & Y Metal Stamping S/B 20-26, Jln Selat Selatan 22, Pendamaran 42000, Port Klang, Selangor	Mr. Sim Kooi Wah Managing Director	Tel: 603-31674575 Fax: 603-31674578 Email: symsim@po.jaring.my
September 4, 2002	Bold Vision Sdn Bhd No.15, Jln Selat Selatan 21, Pendamaran 42000, Port Klang, Selangor	Ms Chong Ngook Looi Director	Tel: 603-31658288 Fax: 603-31659288 Email: info@boldvision.com.my
September 4, 2002	N-Base Sdn Bhd Unit E-12-1, Plaza Mont Kiara, No. 2, Jalan USJ 2/1, 50480 Kuala Lumpur	Ms Irene Eng Account Executive	Tel: 603-62011866 Fax: 603-62011966
September 6, 2002	Light Style Sdn Bhd No.18, Jalan 19/1 46300 Petaling Jaya, Selangor	Mr. V.J.Balan Managing Director	Tel: 603-79578682 Fax: 603-79575295 Email: vjbalan@lightstyle.com.my

Date	Organisations	Name/Position	Contact
September 9, 2002	Maxsoft Precision Sdn Bhd No.4, Jalan Penaga 5, Kaw. Industri Kota Putri, 81750 Masai, Johor	Mr. Goh Kah Foo Executive Director	Tel: 607-3886222 Fax: 607-3878223 Email: kfgoh@pd.jaring.my
September 9, 2002	Lum Mah Plastic & Printing (M) Sdn Bhd No.71, Jalan Usaha 8, Kawasan MIEL, Ayer Keroh Ind. Estate 75450 Melaka	Mdm. Lai Siew Yin Managing Director	Tel: 606-2321546 Fax: 606-2323905 Email: lummah@tm.net.my
September 11, 2002	Sutera Liner Sdn Bhd 361, Jalan Sungai Mulia, Batu 5, Gombak 53100 Kuala Lumpur	En. Haji Abdul Rahim	Tel: 603-40227299 Fax: 603-40228799 Email: abdrahim99@hotmail.com
September 12, 2002	Dynamic Mould Sdn Bhd 41 & 43, Jalan Asa 7, Taman Asa Jaya, 43000 Kajang, Selangor	Mr. J.K. Chan Business Devt Director	Tel: 603-87363973 Fax: 603-87363975 Email: jkchan@dynamicmould.com
October 5, 2002	Zinc Alu Casting Sdn Bhd 4 & 6, Jalan Taming Empat, Taming Jaya Industrial Estate, 43300 Balakong, Selangor	Mr Gan Pei Ling Asst General Manager	Tel: 603-89616533 Fax: 603-89616505 Email: info@zincalu.com
October 9, 2002	Sira Technology (M) S/B 123, Jalan Pendamar 27/90, Seksyen 27, 40400 Shah Alam, Selangor	En Ismail Muhd Salleh	Tel: 603-51917115 Fax: 603-51917116

Annex 8: Interview Notes

Bank Negara Malaysia (BNM)

Notes of Meeting with BNM on August 5, 2002 at 10.00 a.m.

Present: Puan Che Zakiah Che Din, Director, DFI Regulation Department, BNM
Puan Asiah Hashim, Senior Manager, DFI Regulation Department, BNM
Puan Nor Aminah Jabar, Senior Executive, DFI Regulation Department, BNM
Puan Norainy Mohd Sahid, Project Head, SME Taskforce, BNM
Puan Faudziah Abdul Rahim, Manager, SME Taskforce, BNM
Mr. Hitoshi Ara, Assistant Resident Representative, JICA Malaysia Office
Mr. Pun Kai Loon, PE Research
Ms Lim Pao Li, PE Research

Background

Mr. Ara briefed the BNM team on the purpose of the visit and the nature of the project, which is a formulation phase. The project is a JICA initiative to examine how they can be more effective in assisting the financial sector, especially the Development Financial Institutions (DFIs) that are focussing on the SME sector. Furthermore, the study will also design and recommend technical co-operation projects for JICA and Malaysia.

The study focuses on DFIs that are involved in SME financing namely *Bank Pembangunan & Infrastruktur, Bank Industri & Teknologi,* MIDF and CGC. The project will focus on evaluating whether DFIs are sufficiently equipped to meet the financing needs of SMEs, and to find out whether intervention, especially through JICA assistance, could help to overcome the developmental issues. JICA assistance could also be sought to help BNM as the implementing agency in its DFI regulatory role.

In addition, Mr. Ara also explained the new approaches of JICA's technical assistance, highlighting the schedule and procedures for submission of requests for technical assistance, which has to be submitted through EPU.

Implementation of DFIA

As the first stage of implementing the DFIA, six SFIs have been put under BNM. Currently, BNM is trying to understand the issues and is in the process of reviewing their mandated roles. From next year onwards, the six DFIs have to submit their corporate intents and funding requirements to BNM for approval/endorsement.

Under the FSMP, the three major objectives are (1) to develop DFIs as specialised institutions; (2) to meet the social objectives of government; and (3) to complement the banking sector. The plan is also to build up the capacity of DFIs with respect to non-financial assistance like advisory services to SMEs. BNM has set up an SME Taskforce to look into the issues concerning SMEs and a survey has been carried out. The aim is to enact an SME law as currently efforts to deal with SMEs are fragmented and are being carried by various agencies. (It was noted that Japan has an SME law and an SME agency as the focal point. Thus this is an area where Japanese experts can be requested to provide advice to BNM.)

BNM agreed that while there is a need for capacity building of DFIs in order to build up their efficiencies, at this stage is was best for the DFIs themselves to directly put in their requests for technical assistance based on their needs. Generally, BNM believes that training would be essential. There is also the potential need for specialised knowledge; for example, venture capital funding.

BNM's Role towards DFIs

Bank Negara Malaysia's role with regards to the DFIs is spelt out in the DFIA. The relationship of the DFIs with the various ministries and agencies are not affected by the DFIA. The difference is that the DFIs would have to report to BNM as well as comply with the guidelines given.

The segmental coverage of these 6 DFIs includes SMEs, high-tech, construction, cooperative investments and exports. At present, BNM is functioning more like an interim overseer of DFIs rather than in a supervisory capacity given that the central bank has only just assumed the supervisory role in February this year. As such, its precursory role is currently centered on gather comprehensive information on DFIs activities, assessing their current status and reviewing the respective roles and businesses of the DFIs. These broad reviews and assessments are meant to help BNM to eventually chart out its scope of work and expedite its supervisory role effectively. So at present, the central bank is very much moving up the learning curve. It is too early for BNM to comment on the specificity of its role or focus now; things are likely to be clearer a year or two down the road.

All activities of DFIs as well as request for funding will henceforth have to be sent to BNM for approval. Overall, by next year, the DFIs must submit on an annual basis their corporate intent in the coming year and the funding requirement needed to carry out their tasks. No comprehensive guidelines have been outlined as yet but such guideline provisions would eventually be incorporated into the Act. There are also no specific targets provided meanwhile.

BNM's Objectives and Targets towards DFIs

There are no specific targets outlined by BNM to the DFIs, but the bottom-line of the agencies in meeting social and development objectives remains paramount. There are 3 main objectives i.e. to develop DFIs as specialised institutions (for example, in areas of high-tech, SME, maritime, etc.); to meet social-economic objectives of government (for example, to promote exports, SMEs, *bumiputera* entrepreneurs, mobilizing deposits, etc.); and to complement banking sector. By and large, the private banking and financial institutions remain as the mainstream of the financial sector spearheading and promoting growth and development at the micro level while the complementing role of the DFIs is very much dependent on their respective corporate objectives, which in turn will vary depending on their respective mandates. Currently, one of BNM's major supervisory objectives is to ensure that the DFIs focus on their respective mandatory roles. An important area of concern for BNM is whether the extent to which the DFIs have spread out its activities are beyond their original mandates.

With regards to the reporting by DFIs, BNM has initiated the requirement for the submission of management report by DFIs. However, they have yet to collect management reports according to the DFIA. However, BNM has started monitoring the DFIs whereas examiners have gone in to look things over. On-site and off-site surveillance, regular submission of data by the DFIs as well as the performance requirements has also been addressed. BNM is still in the process of identifying areas to regulate or to exempt. Furthermore, BNM's endorsement is required for the appointment of Board of Directors as well as the CEO of the 6 DFIs.

Funding Programs (including SMEs)

The main conduit of funding comes from the annual national budget. Funding is channelled through Ministries; external funding coordinated by MOF and channelled to DFIs – this arrangement will continue. BNM is also interested to explore how non-financial technical assistance can play a role in helping to enhance the capacity of DFIs. A question was raised as to which aspect of assistance can effectively help high-tech entrepreneurs. BNM believes that financial assistance alone does not guarantee performance or growth and as such, there need to be a parallel development in other aspects such as advisory services etc.

With regards to definition, BNM and the DFIs regard those companies that have shareholders' funds of RM 10 million and below as SMEs. This is in contrast to the criteria of Turnover below RM25 million and Employment less than 150 used by SMIDP. There is a need to reconcile or unify the two conceptual constructs in the future so that developmental objectives targeted at common pool of beneficiaries can be more effectively implemented.

Regulation of SME Portfolio

With regards to the DFIs SME portfolio, BNM has yet to come out with regulation criteria. However, these criteria will depend on the objectives of the various funding programs. The mandated role of the individual DFIs is being evaluated. An incidental yet relevant issue is the lack of developmental coverage given non-manufacturing sector as in the case of SMIDP. Such study is primarily limited to SMIs and does not really extend to the broader SME segment. There is a need to address this issue along the way. Meanwhile, the promulgation of an SME Law is in the pipeline. In the case of other financial institutions, BNM does not regulate with regards to their SME financing.

Performance of DFIs

Using generation of surplus as a financial goal for DFIs in their provision of financial assistance for SME development is not feasible as DFIs have social objectives to fulfil. However, a relevant issue deals with the difficulty to differentiate the loss due to higher risk associated with lending to meet social objectives and that incurred as a result of management inefficiency.

The performance trend of the DFIs to date, in terms of loans made, bottom-line performance and non-performing loans are yet to be collected and compiled. Bottom-line performance would be affected by social objectives. DFIs loans have been on an increasing trend. As such it is still too early for BNM to discuss these issues. However, on the overall portfolio risk-return managed in the DFIs, BNM has sent in examiners to assess the monitoring, review and corrective measures of the DFIs.

The credit culture prevailing in DFIs comes secondary. The criteria are also less stringent. It is not appropriate to compare DFI credit culture with that of commercial banks. It is more important that the DFIs understand the industry/sector they are financing and to build up strong relationship with them. To the DFIs, the socio-economic development objectives supersede the stringency associated with normal credit risk ratings utilized by commercial banks to reject or accept loan applications with its appropriate pricing based on credit scores. BNM feels that there is necessary cost in not adhering to the stringent commercial bank-based credit culture in the sense that corporate beneficiaries would necessarily include those with lesser credit standing, even though the price could come in the form of higher incidences of default.

The current status of the DFIs achievements and performances with respect to SME financing are being reviewed and ascertained. (Note: There are 49 funds for SMEs.)

Policy issues, goals and SME targets of the DFIs are reviewed as and when deemed necessary. This review will be done by the respective agencies/ministries, as they have different parameters to follow. An incidental issue with respect to examining the capacity build-up of DFIs lies with the need to be in line with the respective DFIs' mandated roles. This is being reviewed. The main objective of the review is to ensure that the DFIs are meeting their social goals as set out in their mandate.

Bank Pembangunan & Infrastruktur Bhd (BPIMB)

<u>Notes of Meeting with BPIMB on August 5, 2002 (2.00 p.m.) & August 6, 2002 (3.00 p.m.)</u>

<u>Present</u>: Puan Hjh. Rokiah Rajak, Manager of Corporate Planning Department

En. Abdul Malek Mohd Din, Head of Project Supervision, KL Branch

Puan Hjh. Azlina Hj. Ahmad, Head of Marketing and Credit Unit, KL Branch

Mr. Pun Kai Loon, PE Research Sdn Bhd

Mr. T. Rajavijayan, PE Research Sdn Bhd

Mr. Peter Fong Beet Hume, SBF.com Sdn Bhd

Mr. Tang Yiu Hun, SBF.com Sdn Bhd

<u>BACKGROUND</u>

Bank Pembangunan & Infrastruktur Berhad was conceived out of a brainchild from the Second Malaysia Plan (1970-1975), which stated that there was no existing institution in Malaysia charged with the responsibility to encourage and assist Malays and other indigenous people in identifying, initiating, developing, implementing and managing ventures through the various stages of an enterprise.

Therefore, the Government came up with the idea to set up a new development bank, namely *Bank Pembangunan* for this purpose in 1971. It was aimed at redressing the serious economic imbalances that existed between *bumiputera* and non-*bumiputera* communities. It was also hoped that more *bumiputeras* would be encouraged to be more involved in the modern sectors of the economy.

Bank Pembangunan was incorporated on November 28, 1973 under the Companies Act (1965). It commenced operations on June 8, 1974 at Bangunan MOCCIS, Jalan Melaka, Kuala Lumpur. It moved to the current headquarters, Menara Bank Pembangunan at Jalan Sultan Ismail, Kuala Lumpur on August 3, 1988.

Bank Pembangunan changed its name to the present *Bank Pembangunan & Infrastruktur Bhd (BPIMB)* on June 22, 1999. It had been entrusted by the Government with the financing of the nation's main infrastructural projects during the tabling of the 1999 Budget on October 23, 1998. For this purpose, the Bank's paid-up capital has been increased from RM 105.5 million to RM 1.0 billion of which the government holds 99.84% and Bumiputera-Commerce Bank Berhad owns 0.16%.

The Bank's range of services has expanded to cover both financial and non-financial assistance for setting up new and expanding or diversifying existing industrial enterprise. Now the bank operates from its Head Office in Kuala Lumpur and 13 other branches across country.

Among its various functions are:

- to provide comprehensive assistance at the planning and project implementation stages apart from offering comprehensive financial facilities and advisory services,
- to initiate, expand and rehabilitate industrial projects,

- to provide financial assistance based on project viability whilst observing prudent financing principles,
- to initiate projects and/or undertake investments as stakeholders and later divesting these to *bumiputera* investors,
- to conduct promotional and research activities in project identification, entrepreneur development, marketing and technical management.

STRATEGIC PLANNING

(Discussion with Hjh. Rokiah Rajak, Manager of Corporate Planning Department)

Policy Formulation

BPIMB's mission can be abbreviated into 3 basic mandates; to aid the development of Bumiputera entrepreneurs, to support and groom the development of small and medium enterprises and industries (SMEs and SMIs) in Malaysia, and to be involved in financing infrastructure projects. The former two were the original mission of the establishment of *BPIMB*. The third mission came about in 1999 to support the Government's call to finance the nation's main infrastructural projects during the tabling of the 1999 Budget.

BPIMB's vision is to successfully implement these three mandates. It strives to maintain its financial health and the sustainability of its lending. The bank is also keen to adopt a code of best practices that are in line with other financial institutions.

Besides these three core activities, *BPIMB* will frequently review its mission and add more functions to them, if necessary. Earlier this year, it came out with a new draft Business Plan, which entails some new tasks, namely to undertake the formulation and sales of Islamic products, promote growth and resilience of *bumiputera* entrepreneurs, to focus more on the human elements of the bank by enhancing teamwork and professionalism, and supplying micro and macro financing schemes to its present customers to grow with them. In terms of its operations, the bank aims to be transparent, prudent, encourage more usage of technology and instill risk management culture among its staff.

The mission and goals are both formulated in quantitative and qualitative terms. Currently there are **17 main funding programmes** offered by *BPIMB*:

Programmes	Objectives
Soft Loan For Machinery/ Equipment, Rural Industrial Programme	To promote rural entrepreneur to participate in potential industries; to increase automation productivity of industries and to provide a lending facility with low interest rate.
New Entrepreneur (B) Fund	To provide financing of fixed assets and working capital.
Fund For Small and Medium Scale Industry 2	To provide working capital financing and facilitates the growth in capacity of the manufacturing industry, agro-based and services industry.
JBIC Fund – SMI (OECF)	To increase production process, production capacity and manufacturing of new products. Assist in relocation of business to pre-determined industrial area.
Islamic Development Bank (IDB) Fund	To provide financing of imported goods, especially from OIC countries except Israel.

Programmes	Objectives
Asean-Japan Development Fund (AJDF)	To provide financial assistance to small and medium scale industries (manufacturing, tourism) through the Borrower's loan scheme.
Rehabilitation Fund For Small and Medium Scale Industries	To increase production capacity by providing purchase of fixed assets, working capital financing and combination of fixed asset and working capital.
Small & Medium Industry Promotion Programme	To provide financial assistance to small and medium scale industries (manufacturing, services, tourism) through the Borrower's loan scheme in order to promote private sector development in Malaysia.
Fund For Food	To provide financing to purchase land, only pertains to 25% or less of the project cost.
Food and Furniture Scheme	To provide financing facilities to "start up companies" especially to programme vendors and franchise for the procurement of fixed assets and raw material.
Seed Capital Scheme	To provide easy entry, equity and financing to help Bumiputera SMEs get sufficient capital to start a project.
Special Normal Loan (New)	To finance entrepreneurs of SMEs in the manufacturing and services sector.
Fund for Filming, Drama, and Broadcasting Industry	To provide financing to purchase fixed assets, renovation of studios and other activities related to the production of film.
Graduate Entrepreneurs Fund	To encourage graduates venture in industries with good potential.
Publication Fund	To provide financing of working capital/special programme scheme in order to improve the business of local publishers and to promote good quality of publishing products for the education and commercial purpose.

BPIMB defines SMI as any firm with a paid-up capital of RM20 million or less. This differs from the definition used by Bank Negara (RM10 million or less) and SMIDEC. It does not use the same definition as SMIDEC because it cannot fulfill some of the terms and goals of the exact descriptions used by SMIDEC.

According to *Puan Rokiah Rajak*, the Bank has absolutely good reasons to justify this classification. The bank currently does not possess a large pool of database in regards to the SMEs, which makes it hard to profile and check on all its customers. In addition, the system in the bank now is not fully automated yet. So most of the checking and filings are still done manually and these consume time. Furthermore, the broad classification would cater to more borrowers who would have been rejected by other financial institutions (FIs) and also development finance institutions (DFIs), which could have used stricter and narrower guidelines. Some SMEs could not obtain credit in some banks because of the policy of the bank in not lending to a certain industry. The Bank's role here is to complement other FIs and DFIs rather than trying to upstage them. Due to inflation and the passage of time, RM20 million nowadays would not constitute to a vast amount of funds, especially when one talk of starting up a manufacturing plant.

The potential SME beneficiaries are selected based on specific criteria. Some of the factors considered are capital, management skills, feasibility of the project and industry and market potential. The bank tries to take calculated risk in all the loans. If it feels that some of them might carry a higher risk, it would ask for collaterals. The SME portfolio is framed based on overall ringgit loan target. Numbers of loans booked, industry target and industry spread.

The generation of surplus is not the ultimate goal of BPIMB. The Bank maintains that it is its objective to pursue project development with intention to create surplus for sustainability. If it does not generate profit or suffer a loss, it would mean there would be fewer funds to channel out to the SMEs and therefore it fails to carry out its duties. Thus, BPIMB would aim to strengthen up its financial resources and maintain some sort of growth.

She foresees more challenges for DFIs in the next 3 to 5 years. The Bank would target to prove itself as a flag bearer in carrying the nation's development programmes. She envisages the future role of the Bank to be an expert advisor in the areas of infrastructure financing, *bumiputera* entrepreneur development and SMEs development. As the Government is more critical in choosing the right DFI to fund in the future, the Bank has to prove its worth by strengthening its area of weakness, namely the risk management area.

COMMUNICATION AND REVIEW

Corporate plans and policy changes are circulated to all officers once the Board approves them. Normally they are communicated through the issuance of booklets, which would be circularized to those involved. The bank would soon speed this process by doing it online with setting up of intranet.

Performance and achievements are measured in terms of qualitative (upgrading and implementation of programmes) and quantitative (loan portfolio growth and loan disbursement targets). The Senior Manager normally determines the budgets, without the involvement of the Executives. However, on operational issues, policies are made in consultation with operations executives.

Risk-Return Management

The performance trend of BPIMB for the last seven years:

	Number of loans made		**Amount RM (mil)**		**NPL (% on # of loans)**	
Year	**Overall**	**SMEs**	**Overall**	**SMEs**	**Overall**	**SMEs**
1995	3137	N/A	1,279.36	N/A	11%	N/A
1996	2890	N/A	1,384.44	N/A	12%	N/A
1997	2978	2418	1,412.98	751.76	23%	17%
1998	2389	2370	1,436.62	800.54	37%	27%
1999	2538	2494	3,295.88	813.69	21%	24%
2000	2787	2592	5,012.15	900.16	17%	18%
2001	3423	2897	6,512.23	1,202.48	15%	14%

Since the Asian crisis in 1997/98, the loans growth in the Bank has been significant. Overall loans grew by 3.5 times from RM1.4 billion in 1998 to RM6.5 billion in 2001 while loans to SME rose by 50% from RM0.8 billion in 1998 to RM1.2 billion in 2001. In relative terms, loans to SME accounted for 18% of total loans in 2001. Its overall outstanding loans as at June 2002 are estimated to be around RM8.0 billion. (See Table below)

	Loans Approved		Loans Outstanding		NPLs	
	No	RM million	No.	RM million	No.	RM million
By Industry (1998):						
Agriculture	1	0.33	6	3.06	0	0
Manufacturing	327	187.58	1,614	693.70	521	273.68
Construction	21	23.45	116	121.14	31	23.86
Utilities	0	0	11	14.56	1	1.04
Services	228	118.26	1,075	600.31	331	257.44
By Business Type (1998):						
Sole proprietor / Partnership	569	138.09	221	112.20	88	7.55
Private Limited	2714	11,427.55	1203	7,091.78	303	373.57
Public Limited	80	944.02	57	831.62	3	19.63
Others	81	353.02	59	329.39	14	9.76
By Industry (June 2002):						
Agriculture	29	10.57	22	8.17	17	7.43
Manufacturing	2012	1,445.39	822	543.97	307	135.29
Construction	147	4,284.90	78	2,389.59	4	1.08
Utilities	11	708.85	3	201.86	2	182.57
Services	1,247	6,390.01	615	4,453.13	80	84.11
By Business Type (June 2002):						
Sole proprietor / Partnership	569	138.09	221	112.20	88	7.55
Private Limited	2714	11,427.55	1203	7,091.78	303	373.57
Public Limited	80	944.02	57	831.62	3	19.63
Others	81	353.02	59	329.39	14	9.76

Others = Corporations, Individuals, syarikat kerjasama BPIMB.

There has also been some change in the sectoral profile of their customer base since the Asian crisis. The distinctive shift has been the growth in the exposure of the services sector (rising from 42% of total loans in 1998 to 59% in 2002) and construction sector (from 8.5% in 1998 to 31% in 2002). Lending to the manufacturing saw a significant decline, falling from a 48% share of loans in 1998 to just 7.2% in 2002.

Private limited companies took the bulk of the loans, accounting for 82% in 1998 and 85% in 2002. Public limited companies also enjoyed an improvement, rising from 7.8% in 1998 to 9.9% in 2002. The loans share of sole proprietorship and partnership, on the other hand, dipped from 3.1% to 1.3% over the same period.

According to the Bank management, the non-performing loan has risen in absolute terms but declined in percentage from 37% in 1998 to 15% in 2001. However it is difficult to review the loans performance at the sectoral level given the problems of reconciling the performance data by sector supplied by the Bank.

BPIMB started implementing risk management in 2000. One of the main risks that it emphasized is credit risk. Last year, it put into practice total risk management system. However, the system is not in place yet and the current risk rating is more towards qualitative parameters. More risk management models are still being developed. The bank wishes to develop some model that would show risk in a more tangible and quantifiable form. The number of staffs dealing with risk rating is still small. Thus most of the risk ratings are done on an ad hoc basis, making it less concrete.

The Portfolio Management undertakes the monitoring exercise with regular reports, compliance checks and internal audits. In terms of infra financing, it is Government-directed and there is not much room for risk-return actions. However, in development financing they have room to adjust to current situations. Currently, the Bank has two researchers to carry out industrial profile studies.

<u>Overall Strategic Planning</u>

Bank Pembangunan wants to strengthen and improve its risk management. The risk management programme here is still very new. Therefore, it is hard to gauge whether the risk-return portfolio that it undertakes is secure or appropriate. The longer that the bank takes to develop, implement and train the staffs on this aspect, it will further undermine the stability and reliability the bank. In this sense, the bank would need external assistance in terms of helping them in the formulation and implementation of the risk management programme. The staffs responsible for this area would probably need to be exposed to the process and procedures in other banks or overseas.

The Bank would also like to benefit from the studying how regional DFIs function and the roles their government play. It acts as a form of benchmarking.

<u>ACQUISITION</u>

(Discussion with Hjh. Azlina Hj. Ahmad, Head of Marketing and Credit Unit, KL Branch)

<u>Publicity/Business Development</u>

The bank is considerably active in marketing its financial products and services. Among the various mediums used are:

- Roadshows
- Meeting with vendors
- Pamphlets and brochures
- Newspaper

- Sponsorship of television programme
- Exhibition in events organized by MITI

It is very specific in targeting its customers and so far its advertising campaign has been effective. It has gained target specific exposure and at the same time brought in significant portion of clients.

At present, there are no proper guidelines yet to lead the marketing staff of the bank's financial products. The marketing department was only set up in 1998/1999. Prior to this, the marketing was handled by the Public Relation department. However, the bank is working towards formulating one. The marketing staff will be taught and trained on the products and are expected to be familiar with them before they market.

Most of the schemes offered by BPIMB are structured. Nevertheless, it has to compete with other financial institutions and DFIs for a slice of the market. In view of this, marketing staffs are given discretion to repackage the schemes to match the clients' needs, for instance in terms of pricing and services, without compromising the underlying or fundamental structure of the schemes.

The marketing officers are not directly involved in policy and guideline reviews. Specific financial targets are allotted to the marketing staff and may vary from branch to branch.

The marketing staffs of the bank also undertake cross selling of other institutions' SME packages from time to time. It is done when the marketer feels that products of the Bank might not suit the need of the client. He or she may have knowledge of other more suitable loan scheme for the client.

Credit Evaluation and Analysis

The credit processing flow the bank is done manually. This flow comprises of two main evaluations: preliminary evaluation and final evaluation. The bank is in the middle of automating the preliminary evaluation. The bank's financial projection is already automated.

The basic documents required for processing a loan are quite extensive. Sometimes the SMEs would encounter problems in filling out all the documents. The forms includes: M&A, Form 24/49, six months' bank statements, three years' financial statements, cash flow projection etc.

Basically the bank utilized 4 aspects of evaluation to determine credit eligibility: market condition, financial records, technical evaluation (technical aspect of the project), and management capability. The marketing staff would normally evaluate the qualitative factors of the credit application while the credit analyst does the quantitative analysis.

In its credit evaluation, for loans above RM3.0 million, the Bank assigned 40% on quantitative factors and 60% on qualitative factors. However, when it comes to SMEs without track record, the evaluation process is quite rigid. They automatically lose the 40% quantitative points. For loans between RM3.0 million and RM1.0 million, the Bank would place more emphasis on qualitative factors. For loans below RM1.0 million the evaluation on both quantitative and qualitative factors are quite relax.

In the credit evaluation process, the Bank would utilise the borrower's historical financial accounts. For loans above RM200,000, projected financial accounts would be needed. If the

SMEs do not have one or its accounts are ambiguous, the bank would formulate its own projection. The bank would also require the borrower's cash flow analysis. It is highly vital to have this when it is doing credit financing.

For loans below RM5.0 million, the time to complete a credit evaluation process from the moment all the documents are filled up and submitted to the point of approval, would take approximately four weeks. The appraisal would take two weeks and the approval another two. If the loans involve more than RM5.0 million, it would take longer as it needs to be presented to the board to get approval, which only comes together once a month. For loans size of RM200,000 to RM500,000, approval can be secured from Regional Office and Senior Manager.

Credit Structuring and Negotiation

The marketing staff are deemed to be able to independently assess the funding requirement of the customers and structure a financial package for the customers. Packaging of the loans is quite limited as the products of the Bank are narrowed to term loans and revolving credits. It does not have a license to offer overdraft and other trade line facilities.

The marketing staffs are trained to identify and mitigate credit risks. The usual terms and conditions employed are the requirement of collaterals or in the event, the collaterals are not sufficient, the Bank might compromise by reducing the loan amount.

Credit Approval

At the committee level, estimated rate of approval in relative to applications received was 70%. It has to be taken into account that before the applications reach the committee level, they are appraised and approved by regional managers and senior managers.

The estimated rates of conversion of approved facility to actual disbursement stood at 50%, main reason being some of the conditions attached do not suit the borrower or they might find it too rigid and unreasonable.

Credit and Legal Documentation

After the loan has been granted, it would take another one month for the legal and credit documentation to be completed. If the deal involves property or machinery, it would eat up more time as the Bank might decide on a site visit to conduct technical evaluation on them. This is a standard follow-up procedure before the funds can be disbursed.

Assistance Useful For Acquisition Phase

The funds allocated for SMEs have been used up and the bank hopes for replenishment from Bank Negara. The problem arises due to a combination of poor planning and unforeseen demand for the SMEs funds.

The bank has a broad spectrum of customers across many industries. It would need more specialized personals to do technical evaluation.

Sometimes scope of loans are limited to certain policies or guidelines e.g. some business would come to BPIMB for funds and they are qualified based on their track record and qualitative factors, but the bank need to turn them away as some of these loans do not fit into its portfolio. In other words, it might need to expand its portfolio coverage.

Furthermore, the bank needs to branch into facilities given by commercial banks, to provide better convenience to its customers. For example, the Bank does not provide overdraft facility.

It needs to implement automated processing, as it would save time. It is currently being discussed but nothing has been agreed yet.

ADMINISTRATION & MAINTENANCE

(Discussion with Abul. Malek Mohd Din, Head of Project Supervision, KL branch)

Account Administration and Monitoring

The credit department is divided into two main functions: the evaluation and approval group and the after disbursement and collection group. Therefore, the officers in the former group will conduct the evaluation of the loan applicants and appraise them based on their merits. Candidates that satisfy most of the criteria would be granted approval. After these processes, the latter group will monitor, review and take corrective measures on the loans. The supervision of the account would be done by individual or supervision officer. Normally, the officer would conduct a check on the performance and site visits of the borrower at least twice a year. For those accounts that have encountered some difficulties or are foreseen by the supervisor as being problematic, the check and visit would be done quarterly. At present, the Bank does not have a fully automated system to monitor the account.

Account Collection and Recovery

The Bank does have in place a partial schematic approach for account collection and recovery. It would constantly check for consistency in the financial statements and debt repayment of the borrower. At the moment, it has not had an internal automated system that would detect any discrepancy or peculiar matter.

Generally, BPIMB would classify six months of loan default as non-performing loans. The bank would consider the loans as delinquent if they were outstanding for three months or more. However, it is up to the discretion of the branch manager, who gave out the loans, to decide on the break-off point (where no more loans would be disbursed to the borrower). It could fall anywhere between three to six months.

When an account is deemed delinquent, the branch manager or supervision officer would be accorded his or her discretion to handle it. The supervision officer would normally offer his or her proposals and recommendations to the afflicted party as to how to settle the loan repayment. The debts could be rescheduled if the borrower could still service the interest of the debt or the parties could work out one set time to settle the outstanding debt. In this case, the manager could require taking a look at the borrower's business plan. Bank Pembangunan could provide assistance in terms of consultations to the borrower to help him restructure his business and hopefully turn its books back to the black. Normally, the bank would have less difficulty in conducting these restructuring and planning help to the big corporations. However, it found that the smaller firms could have problems implementing them. Sometimes they might not even understand the plans. In extreme cases, the bank could ask for a foreclosure of the business. The Bank can be considered to be quite lenient in dealing with delinquent loans because of its development objective and its mandated role.

Occasionally, BPIMB would help the delinquent accounts by subscribing to the company's convertible loan stocks, effectively having an equity stake in it. This has the advantage of letting the bank assist with the cash flow problem of the firm and giving the bank more leverage and influence to handle the restructuring of the business.

Normally, the Bank adopts a very accommodative stand in managing its receivables, as compared to commercial banks. However, if the account were no longer salvageable (operation ceases or wound up, customer has been adjudged bankrupt, customer has absconded etc.), it would be terminated and subsequently written off. The Bank does not seek foreclose the business unless other lending institutions make their move first.

The Bank has in place rehabilitation funds to help its distressed clients. Often, this situation would throw the bank into an extremely tricky situation. If it does not provide more funds to the cash-strapped client, he might not be able to survive from this debacle. Thus, the bank would be caught up in this vicious cycle, where the customer would go out of business and not be able to return the loan granted by the bank.

All rehabilitative or termination activities must have the endorsement of the respective approving authority. The submission is directed to the Loan Investment Committee A or B, depending on the loan size. If the outstanding loan is less than RM1.0 million, approval must be secured from Loan Committee B and for loan sum of more than that, approval must come from Loan Investment Committee A.

Assistance Useful For Accounts Administration and Maintenance Phase.

The credit department still lacks the proper research and database to gauge the current and future direction across all industries locally and abroad. This represents a threat to the bank's loan portfolio due to this lack of awareness. It would probably need some external assistance in this area. The bank would need to set in place a larger pool of researchers to help it keep track of all the industries and also beef up their risk management team to balance its risk-return portfolio.

Participation in exchanging ideas in the subject of 'Handling Problem Loan' with other Asean countries is regarded to be beneficial to the Bank. This would enhance its exposure in problem solving or helping the SMEs settle their troubles.

TRAINING (*Discussion with Mr Ahmad Azhar bin Mohd Darbi*)

The Bank is essentially divided into two main core structures, namely, Development Banking and Infrastructure Banking. While the Development Banking sector has been in existence for some time, the Infrastructure Banking was set up only in 1999 when the Government entrusted the responsibility of infrastructural development to the Bank.

The Bank allocated RM1.8 million on training of internal staffs in 2002. Budget for last two years are approximately RM840,000 in 2000 and RM1.0 million in 2001. About 5.0% to 6.0% of total payroll spent on training, which is above industry standard of between 2.0% to 3.0%. Workforce increased from 400 to 600 plus since 1999.

Total training budget spent on educating on soft skills is 40% and hard skills are 60%. Areas of allocation are clerical training 20%, officer/executive training 32% and managers training 48%. BPIMB spends most of its training budget on in-house training. Budget allocation in this area is 83% of the total training budget. Most of the in-house training is formulated internally with a little help from outside. Training personals are very experienced in the training process and also familiar with the inner workings, procedures and practices of the corporation. The rest of the budget (13%) is spent on external training, which includes hiring foreign consultants to train local staffs, sending staffs overseas for training in their respective fields. The general profile of the trainers is academics (10%), practicing bankers (30%), professionals in business (50%) and other professionals (10%).

BPIMB has minimal usage of foreign consultants in its training programmes as it assigns great importance in development of hard skills among its staffs. Most of the hard skills utilized locally would suit the appointment of local trainers, as they are more familiar and understand better the local contents and banking process. The bank employed only one foreign trainer last year. It was to conduct its management training programmes.

The Bank used to appoint a Japanese consultant for its Infrastructure Banking Division to help in the area of finance consulting/analyzing and implementing of some basic structure and process of infra banking. The consultant left in April this year. Over the years, there have been some issues regarding the recruitment of foreigners to act as trainers and consultants. There might be some communication problem because the foreigners could have a different mother tongue than local workforce. Furthermore, the technical jargons used might be slightly different. Local staffs might not grab the intention or viability of certain aspects or contents that are being communicated and formulated by the foreign consultant as there is a competence gap. It could relate to the experience of the consultant and the different status and stage of development infra banking in both countries. In other words, BPIMB endorses the recruitment of foreign trainers based on the level of relevance there could bring in to the local workforce.

<u>Assistance Useful For Training</u>
It mainly needs external technical assistance in the area of infrastructure banking, as the Bank is still new in this area. Traditionally, the bank had focused on development banking, which helps to groom and support Malaysia's SMIs and encourage the participation of bumiputeras in these areas.

The bank had tried to adopt some of its approach and training that it had acquired from the development banking side to the infra banking. However, not all the skills could be transferred optimally or utilized as there is a need for a slightly different approach in both divisions. Nevertheless, BPIMB had instilled and transferred some of the very core or basic skills to the infra banking side.

It would appreciate the external help for training across the whole spectrum of its infra banking process, which consists: Project Financing (PF), Special Contract Financing (SCF), Corporate Finance (CF) and Planning and Consultancy. In the area of (PF), the bank would need training skills on the area of credit skills. In the area of SCF, the bank would need trainers to improve on its advisory skills. As for the whole structure of infra banking, the bank would need to brush up on its risk management skills as well.

The Planning and Consultancy area in infrastructure banking plays a role of providing the other three areas with support. Therefore, the bank found that it is important to improve on this as well.

Two months ago, BPIMB had sent two of its staff to Japan for a one-month long stint. According En Azhar, the merit to go overseas would be based on the job relevance and the project that they are involved in. He would welcome the idea of sending the Bank's staff overseas to train and expose them to the process of infra banking.

Although most of the Bank's need for external assistance would come from its infrastructure banking division, it also found some of the areas in the development banking division that it would be improve. The bank has encountered its fair bit of complications in the area of entrepreneur development programme as this is an area where there is a fairly high degree of risk. The Bank admitted that it could be slightly inexperienced in this area as the expertise involved includes gauging the right and appropriate amount of loans to give out to clients who most of them have no history of cash flow from its business. The other dilemma would be the business acumen of the borrower. The skills and creditworthiness of the borrowers could most often be measured by qualitative methods, which is not a highly reliable way to gauge their entrepreneur skills.

Bank Industri dan Teknologi Malaysia Berhad (BITMB)

Notes of Meeting with BITMB on August 6, 2002 at 10.00 a.m.

Present: En. Nik Abdullah Shukri Nik Mustapha, Head, Group Corporate Planning
En. Zamros Dzulkafli, Assistant Manager, Group Strategy & Performance
Mr. Pun Kai Loon, PE Research Sdn Bhd
Mr. T.Rajavijayan, PE Research Sdn Bhd
Mr. Peter Fong Beet Hume, SBF.com Sdn Bhd
Ms Kok Lai Kuan, SBF.com Sdn Bhd

STRATEGIC PLANNING PHASE

Policy Formulation

The corporate mission of BITMB is to participate proactively in the development and industrialization of the country in the strategic and selected industries without detriment to the environment. It aims to establish high technology and capital intensive industries, to develop indigenous technology that are competitive in local and international markets and to provide financial support to transportation, manufacturing, export and import, and selected services sectors. It is the bank's vision to become a leading bank in promoting and supporting new and emerging technologies towards making Malaysia a renowned center for technology development.

The bank defines Small and Medium Enterprises (SMEs) as those companies with paid up capital that does not exceed RM10 million. More specifically, companies with paid up capital that is less than RM3 million is considered small while those with RM3-10million is considered medium-sized. However, this definition is employed more for classification of loan portfolio rather than for lending. In cases of lending, the group follows the definition or requirements of the specific funds, except where lending is sourced from the bank's own funds.

80% of the loan portfolio is extended for the four sectors mentioned above with the reminder 20% for projects/sectors under the directive of the government. There are 3 departments in the institution i.e., Credit 1 that is Corporate Loans, Credit 2 being SME loans and Credit 3 (Shipping and Maritime Industries only).

In view of their mission statement that focuses on industrial development, there is no specific target set for loans being extended to SMEs. Rather, the SMEs are only indirect beneficiaries of their funding by virtue of their involvement in the group's targeted industries.

Ofs the current loan of RM970 million, about 67% of their lending go to SMEs, according to the interviewee. In view of the growing importance of SMEs BITMB has set up a separate department that focuses on SMEs. Nevertheless, they noted that they still have more roles to play in helping to develop the SMEs.

The SME portfolio frame currently has a maritime & shipping base of 60% while the remaining 40% in manufacturing. However, the bank is developing targets in their 3-year plan to also include high tech industries and the environmental sector.

The generation of profits have always been the financial goal of the group. While the remuneration of the management is tied to the bottomline, it is however still premature to state that they are aggressively pushing for growth of profits. Suffice to say for now that the bank would do their best to not let it slip into the red. The target is to ensure profits as a means of self-sustainability by 2006 as stated in their Strategic Plan, but they still have a long way to go. This target was made because of the institution's share in a wafer plant in Kulim. It was set to be listed in NASDAQ and KLSE but was shelved due to the burst of the technology bubble. Currently the institution would like to unload their investment.

On its outlook, *Bank Industri* envisaged itself to continue providing financial support to develop the four targeted sectors namely maritime, capital-intensive manufacturing, high-tech and environmental related businesses.

Communication & Review

As *Bank Industri* together their subsidiaries are placed under the purview of *Bank Negara Malaysia* in conjunction with the Development Financial Institutions Act, they are required to submit a statement of Corporate Intent and Funding requirements to BNM by September this year. Internally, policy issues, goals, and institution performance are reviewed yearly to ensure that they remain focused on their core business and consistently meet their targets. As with commercial banks, their performance and achievements are measured in terms of financial goals, such as profit, return on assets (ROA) and return on equity (ROE).

Information transmission in *Bank Industri* is in place as policy initiatives and product programmes are incorporated in Credit Lending Policy Guidelines, which are then disseminated to the implementing executives. Policies are made via "top down" and "bottom up" approach hence information is well communicated to the relevant executives.

Meanwhile, the employees receive individual performance review that takes into account qualitative factors such as personality and initiative, and quantitative factors such as number of loans processed. For the senior staff, greater emphasis is being placed on quantitative factors (65%) against qualitative factors (35%), while equal emphasis for both qualitative and quantitative is placed for performance review of executives.

Risk-Return Management

Risk Management is an issue that was discussed in the Strategic Plan of the bank. Basically the area on risk management that the bank is keen to look into is Credit Risk. The departments involved in Risk Management are Portfolio Monitoring, Customer Rating and Compliance.

Annual gross loans approval experienced a fairly significant decline from RM426 million in 1998 to RM257 million in 2001. On a cumulative basis, the gross loans approved stood at RM4.6 billion as at 2001.

The Bank's total loans outstanding amounted to RM930.9 million by the end of 2001. Of this amount, about 58% went to maritime sector and 42% to manufacturing sector. In terms of SME loans (defined by company size of paid-up capital being less than RM10 million), they accounted for 65.5% of outstanding loans in 2001, a slight improvement over their 64% share registered in 1998.

The economic slowdown has seen a weaker asset portfolio. There was a marginal deterioration in the asset quality of the Bank, with net non-performing loans increasing from RM127.1 million (or 15.6% of net loan assets) in 2000 to RM137.6 million (or 16.7% of net loan assets) in 2001. Comparable data for earlier years are not available for analysis.

Year	Annual Gross Loans Approved (RM Million)		Cumulative Loans Approved (RM Million)		Non-Performing Loans (RM Million)	
	Overall*	SMEs	Overall*	SMEs	Overall	SMEs
1997	472	-	3,344.2	n.a.	-	-
1998	426	35	3,770.2	n.a.	221	13
1999	232	127	4,002.4	n.a.	286	50
2000	321	106	4,322.9	n.a.	309	59
2001	257	107	4,579.9	n.a.	311	3

** Source: 2001 Bank Industri Annual Report; the rest from Interview with Bank Industri*

Loans approved are allocated to two large broad sectors, namely manufacturing and maritime industry. As at July 31 2002, the number of loans approved for the manufacturing sector far exceeds that to the maritime sector by about four-fold (see Table 2). However, the value of loans approved for the maritime sector stood at RM1.82 billion, 32% higher than value approved for the manufacturing sector. This is due to the capital-intensive nature of the maritime industry.

Accordingly, loans outstanding in the maritime sector was higher at RM530 million compared to RM383 million for manufacturing sector. The NPLs arising from the maritime sector is also higher. Total NPLs as at end of July 2002 stood at RM317 million, with RM180 million from the maritime sector.

Almost all of the customers of *Bank Industri* are private limited companies and no loans are given to sole-proprietor and partnerships businesses. Private limited companies accounted for 98% of total number of loans approved and amount of loans outstanding.

Assistance Required

The areas that need assistance are:

- Risk Management – a framework to rate country risk is needed, especially for MECIB where there is a lot of country risks involved. Currently, they have engaged a consultant, Rating Association of Malaysia (RAM) to help with internal rating, but this model is more suited for credit risk and is not applicable to all countries.
- Maritime technical assessment – training is needed to upgrade skills in assessment of maritime and shipping technical aspects. Currently the institution has 8 engineers but all of them are mechanical engineers. In addition, assistance is required to help assess these technical engineers as there is no benchmark or basis of comparison to judge the capabilities of these engineers as *Bank Industri* is reputedly the only financier for shipping industry.

ACQUISITION PHASE

Publicity/Business Development

As the group has clearly defined target market segments, their marketing efforts are accordingly focused on these segments, mainly via roadshows and briefings at the main regions around Malaysia. Others include advertisement via their own website, advertisement in airport by EXIM and MECIB, printed brochures. Representative offices in Kota Bharu, Ipoh, Malacca, Butterworth, Johor Bharu and Kuching are tasked to help promote the bank's schemes as well.

The bank provides only Term Loan and Revolving Loan. Hence, there is not much room for manoeuvring of packaging by Relationship Managers. In the event if the customer wishes to apply for working capital and insurance cover, this request will be forwarded to their sister companies, MECIB and Exim Bank.

The employees are basically inflexible to package their own financing deal. Where the funds come from their own backyard, the relationship managers have the freedom to price the loan anywhere from 1% to 3% above the base lending rate (BLR).

They are involved in reviews and compare against their financial targets assigned by section heads. Where the bank does not provide the funding required by customers, they informally refer them to other DFIs.

Credit Evaluation & Analysis

Save for the rating model that has been automated, the rest of the credit evaluation process are all manual. Standard documents such as M&A, Form 24, Form 49, Financial Statements are required for application, except for machineries where there are more stress on machinery particulars and personal interviews with their customers.

The Relationship Manager is responsible for marketing the loan schemes and manage the customers' account. Essentially, they select, assess, control, and manage the customer introduced or acquired by them. At the initial stage, an independent party conducts the quantitative assessment of the application while they assess the qualitative factors.

Relationship managers as well as the credit officer conduct the evaluation process. Any discrepancies in grading will be discussed and reconciled. On average, a credit evaluation process takes up 2 to 3 months, provided all relevant documentation is submitted. But they note that larger accounts take a shorter time, as normally they provided fuller documentation.

The creditworthiness of the applicants is assessed based on both qualitative and quantitative factors, with higher weights of 65% allocated to qualitative factors. For the qualitative factors, the overall industry and business environment that the applicants are operating in is taken into account. Information such as growth prospects, business cycles, price volatility, entry and exit barriers, threat of substitution effect and level of competition in the industry are being taken into consideration when studying the industry. Other factors like operational efficiency, market diversification, market share, revenue stability, customer risk, forex risk and counterparty risk are looked into when evaluating the business environment and are being emphasised more than study of the industry.

Meanwhile, financial information such as the company's profitability record, operating efficiency, liquidity, coverage, level of capitalisation and projected gearing level are needed to determine the quantitative viability of the business. The cashflow adequacy is of great importance for the credit evaluation team in *Bank Industri* as the factor alone is assigned a weight of 25%.

Credit Structuring & Negotiation

The final decision in terms of customer's funding requirements and size is made by the institution. However, this will be made after discussion with the customer. The institution tries to find the cheapest fund for the customer so that they can benefit rather than push down programs that might not be beneficial to the customer.

The institution takes higher risks compared to commercial banks. The asset for financing is used as the collateral for the loan. However, if the application carries abnormally high risk, the bank would request for additional collateral to mitigate the risks, such as debentures, land and fixed deposits.

Credit Approval

The level of approval sought is dependent on the amount of financing required.

- For loans up to RM500,000, approval can be obtained from the General Manager, Operations
- For loans between RM500,000 to RM1 million, approval can be obtained from Group Managing Director
- For loans between RM1 million to RM5 million, approval can be obtained from Group Credit Committee
- For loans up that exceed RM5 million, approval has to be obtained from the Board of Directors

With regards to approval in relation to applications received, the rejection rate is quite high. For year 2000 and 2001, only about 22% of applications are approved. But, the already low figure dip further to an approval rate of 15% of total applications received as at July 2002.

In terms of number there has been an increase in new customers. However in terms of value it is the opposite.

The gearing ratio cannot exceed 3.5.

Of the loans approved, 96% was drawn down in year 2000, but it declined to 77% in 2001. This could be attributed to applicants shopping around, restrictive facilities that restrict convenience, and inability to comply with approval conditions.

Credit & Legal Documentation

The institution targets to reduce the time taken for the processing of documents between approval stage and loan disbursement from their current average is 101 days to 47 days. The delay is because of compliance to legal requirements etc.

Standard follow-up procedures once the loan is approved are:

- Site/vessel/machine inspection before loan drawn down
- Technical Evaluation Certificate prepared by the institutes engineers

Documentation with lawyers is not seen as posing a problem as the bank has been using them for sometime now. In fact, the lawyers are required to submit their draft agreement within 5 working days after the receipt of the bank's instruction.

Assistance Required

The bank is of the opinion that more training needs to be provided for SMEs, so that they are more prepared to provide the documentation required. A professional centre to deal with this was proposed.

ADMINISTRATION & MAINTENANCE PHASE

Account Administration and Monitoring

The Relationship Manager is also responsible for monitoring and supervising the account after the disbursement of the loan, for example keeping in touch with the customers on a scheduled basis.

For delinquent accounts in arrears for 6 months or more, BNM guidelines on the suspension of interest and provisioning are adhered to.

The Credit Monitoring and Recovery (CMR) section is responsible for ensuring due payment are promptly collected. The first reminder will be sent out 3 days after payment is due, and second, which is the final reminder, will be sent out 14 days after the due date. In the event that payment still cannot be recovered, CMR would notify Group Legal Department to issue a Letter of Demand with a copy given to Relationship Manager (RM). This applies under four scenarios:

a. if instalment, consisting of principal and interest, for Term Loan is in default for more than 21 business days;

b. if interest is in default for more than 2 months for Term Loans which are under grace period;

c. if the principal is in default for more than 21 business days for Revolving Loan;

d. if interest payment is in default for more than 2 months for Revolving Loan

Upon receipt of notification from Group Legal Department on the issuance of Letter of Demand, CMR has to follow up on payment as well as to conduct site visit to the borrower's office. RM is to be notified to do the necessary follow up or to obtain approval for legal action to be taken.

Account Collection & Recovery

As a development financial institution, the Bank tries to be more "accommodating" with its delinquent customers, compared to commercial banks. If the business were deemed viable, the bank would attempt to sort out the problems with the customer including sourcing for additional funding provided under the various BNM schemes or from internal sources.

Rehabilitation of problematic customers is done through the BNM's fund for rehabilitation and might entail restructuring of the customers loans etc depending on the loan approving authority. The bank's principle is to rehabilitate problematic accounts and the legal action is used only as a last measure. All rehabilitative programmes are to be in writing and to be submitted to the Group Credit Committee. Decisions can be made speedily as the committee meets weekly, provided the documentation is complete. However, delinquent accounts will be written off if the customer ceased operations or the account is not recoverable as the person in charged has abandoned.

TRAINING

The bank spends about 5% of total staff cost on training. This more than meets the BNM requirement of 2% that financial institutions need to allocate for training. In 2000, a total of RM602,000 was spent on training. The amount has increased to RM718,000 in 2001 and to RM1.23 million in 2002.

The bank placed equal emphasis on both soft skills and hard skills training, as seen from the 51% and 49% of budget allocated on soft and hard skills training respectively. This reflects that the bank recognises the importance of both technical and inter-personal skills in generating business.

In addition they also provide credit skills Certified Credit Professionals (CCP) examination by IBBM although it is currently not compulsory for DFIs to comply.

In terms of beneficiaries of training, officers and executives comprised the largest group of trainees, accounting for 45.8%. This is followed by the managers that accounted for 36.4% of total trainees and the remaining consists of clerks.

Though the majority of the trainees are involved in the daily operations of the loan acquisition and evaluation process, it does not necessarily translates into the notion that these "implementing" officers are constantly aware of changing business environment and evolving needs of their customers, as a large part of these training are being conducted in-house, while only 31.3% are conducted by external trainers. Furthermore, half of their trainers are practising bankers, while business professionals constituted 30% of their trainers. Academics and other professionals make up the rest. As a result, the insufficiency of industrial and external knowledge on their part could possibly render their business acquisition efforts less effective.

Thus far, the bank does not engage foreigners to conduct training in view of the relevance of the content to local environment. However they do send their staff for overseas training in cases where local expertise is lacking.

As the Human Resource department is exploring the development of a succession planning methodology, some form of assistance is needed. In addition, the bank had also expressed the need for improvement in the marketing and selling skills of the officers in the form of training.

Malaysian Industrial Development Finance Berhad (MIDF)

Notes of Meeting with MIDF on August 12, 2002 at 10.00 a.m.

Present: Mr Khoo Chin Guan, General Manager – Services
Mr Abdul Muis Hassan, General Manager - Operations
Mr Wang Leong Heng, Asst General Manager (Loan Supervision)
Mr Ahmad Radzi Abd Majid, Asst General Manager (Projects)
Ms Tan Chek Yiang, Manager Research Business Development Division
Mr. Hitoshi Ara, Assistant Resident Representative, JICA
Mr. Pun Kai Loon, PE Research
Ms Lim Pao Li, PE Research
Mr. Tang Yiu Han, SBF.com Sdn Bhd

A. Background

Before proceeding with the interview proper, Mr. Ara briefed the MIDF team on the purpose of the visit and the nature of the project formulation study. The project is a JICA initiative to examine how they can be more effective in assisting the financial sector, especially Development Financial Institutions (DFIs) that are focussing on the SME sector. Furthermore, the study will also design and recommend technical co-operation projects for JICA and Malaysia.

The study focus on DFIs that are involved in SME financing entails evaluating whether DFIs are sufficiently equipped to meet the financing needs of SMEs. In addition, the study aims to find out whether intervention, especially through JICA assistance, could help to overcome some of the developmental issues faced by DFIs. JICA assistance could also be sought to help MIDF is one of the leading DFIs for SME financing.

Mr. Ara also explained the new approaches of JICA's technical assistance, highlighting the schedule and procedures for submission of requests for technical assistance, which has to be submitted through EPU. *(Mr Ara then left the meeting while the technical interview continued.)*

B. STRATEGIC PLANNING

B1. Policy Formulation

The current mission statement of Malaysian Industrial Development Finance Bhd. (MIDF) has not changed since its inception. It was incorporated in 1960 as a public company to provide medium to long-term financing to promote industrialisation in the country. Its core mandate remains as that of a development finance institution. As such, its formal mission of spearheading the growth of privately-owned manufacturing industry through the provision of small and medium-size loans still stands.

The current status of MIDF as a quasi government financial entity is by virtue of the presence of *Permodalan Nasional Bhd* (PNB) as the largest stakeholder. PNB is the investment arm of the Malaysian Government. The other major stakeholder in MIDF is Malayan Banking Bhd. As at June 2002, the respective equity interests of the substantial shareholders in MIDF were as follows:

Permodalan Nasional Bhd 34.49%

Amanah Raya Nominees (Tempatan) Sdn Bhd 21.36%

Malayan Banking Bhd 10.37%

MIDF stands out as an exceptional DFI. The distinction of being Malaysia's first and only development finance institution in the country to be listed on the Main Board of the Kuala Lumpur Stock Exchange (KLSE) in December 1992 has meant that the corporate entity would also have to fulfill its responsibility as a corporate citizen in meeting commercial business goals. MIDF has both the socio-economic developmental responsibility as well as the private sector financial objectives to meet. It has to juggle a dichotomous role – striving to satisfy national aspirations on the one hand and to meet the profitability goals expected by the shareholders and investment community.

While the mission statement has not been formally changed, the management indicated that the board of directors and management team would occasionally review it to check whether there has been a change in objectives. MIDF has a money-lender license, and comes under the BAFIA regulatory regime. It also comes under the jurisdiction of MITI. However, MIDF is still not governed by the DFI Act. Please refer to **Figure 1** for MIDF corporate structure.

<u>B1.2 In what terms are these mission and goals formulated?</u>

The missions and goals are stated in both qualitative and quantitative terms. Much of its goals are premised around budget targets; of which, an important goal is the new loans target to be achieved for the year. The loans target is broken down in terms of number of accounts and aggregated monetary value.

In expediting its role to help speed up the development of industry in Malaysia, MIDF broad goals are:

- Assisting in the creation, expansion and modernisation of such enterprises;
- Encouraging and promoting the participation of private capital, both internal and external, in such enterprises; and
- Encouraging and promoting private ownership of industrial investments and the expansion of investment markets.

The loans target is not particularly complicated as it provides a single product –term loans – for SME activities. It provides fixed assets financing to the industry –in the form of long or medium-term loans or leasing and industrial hire purchase facilities for equipment, heavy and light machinery, plant and other related equipment, and providing managerial, technical and administrative advice. Since its inception, MIDF has granted more than 5,600 loans and leases for over RM6.7 billion to manufacturers and the manufacturing-related services, infrastructure and utilities and tourism sectors in Malaysia.

B1.3 What are the funding programmes currently available in your institution (highlight those that are targeted to SMEs)?

MIDF's current special loan schemes for SMEs include the following:

Programmes	Objectives
New Entrepreneurs Fund 2 (NEF 2)	The NEF 2 was set up by the Government in April 2001 as an additional allocation of RM250 million to the existing New Entrepreneurs Fund to promote new productive capacity as well as utilisation of existing capacity among Bumiputera entrepreneurs.
Japan Bank for International Cooperation/ Fund for Small- and Medium-Scale Industries (JBIC/FSMI)	The ¥16.296 billion (approximately RM500.0 million) loan scheme was launched in June 1999. The fund which comes from the Japan Bank for International Cooperation (JBIC) is aimed at strengthening local small and medium-scale industries.
Fund for Small and Medium Industries 2 (FSMI 2)	The RM200 million revolving fund was launched by the Government in April 2000 to provide financing to small and medium industries in the manufacturing and services sectors. The total allocation for the fund was raised to RM400 million effective April 2001.
Rehabilitation Fund for Small and Medium Industries (RFSMI)	The RM750 million RFSMI was launched by the Government in November 1998 to provide financial assistance to viable SMIs which face non-performing loans and temporary cash flow problems. The total allocation for the Fund was reduced to RM500 million effective from August 4, 1999.
Soft Loan for Small- and Medium-Scale Enterprises (replaces PAKSI, MAS & QES)	The fund which was approved in December 2001 is aimed at promoting the development of small- and medium-scale enterprises in Malaysia. This soft loan scheme is to assist existing as well as new start-up companies in project, fixed assets and working capital financing. The Scheme will also cover businesses of women entrepreneurs. The fund for the Scheme which comes from the Government via the Small and Medium Industries Development Corporation (SMIDEC) is channelled through MIDF.
ASEAN-JAPAN Development Fund/JBIC Scheme (AJDF/JBIC)	The ASEAN-Japan Development Fund (AJDF)/JBIC) loan scheme was launched in December 1988, with an allocation of ¥50 billion (approximately RM1 billion) to promote the development of Malaysian-controlled small- and medium-scale enterprises in the manufacturing sector.
Small- and Medium-Scale Industry Promotion Program/JBIC Fund (SMIPP/JBIC)	The fund of ¥13.98 billion (approximately RM280 million) was implemented in May 1992 with the objective of promoting the development of Malaysian-controlled small- and medium-scale enterprises in the manufacturing, agriculture and tourism sectors.

The management indicated that currently some of the schemes have been exhausted. On average, some RM500-RM600 million funds were disbursed to SMEs each year. Broadly speaking, while demand is not an issue, the supply of funding is.

B1.4 What is the definition of SMEs used by your institution?

Given the nature of the funding sources, MIDF is presently employing two sets of definition for SMEs in its loans assessment. MIDF uses predominantly SMIDEC's and Bank Negara's definition of SMEs. It covers both the BNM's definition of paid-up capital of less than RM10 million and the SMIDPP's definition of turnover below RM25 million and employees of less than 150 staff. It is generally abiding by the specific definition employed by the individual schemes.

The management also intimated that certain qualitative features of SME do exist. Such operation is typified by an organization being run and managed by a few people who are multi-skill or multi-tasking and one without an elaborated organization structure that would include specialised units like marketing, sales, HRD, credit control, etc.

B1.5 Are the potential SME beneficiaries selected based on specific criteria?

Certain schemes stipulate social development objectives such as the development of Bumiputera and women entrepreneurs while others are phrased in broad economic goals.

B1.6 How is the SME portfolio framed?

There is no specific target to achieve in relation to SME. This notwithstanding, the management indicated that about 90% of the loans have value less than RM5 million, suggesting the overwhelming bookings were related to SME lending. As mentioned earlier, the institution's goals are framed around budget targets; they included new loans target, number of accounts and aggregated monetarized value. There is also the spread of industry targets as stipulated by the individual schemes. According to the management, MIDF definitely are more diversified or has a wider industrial spread than *Bank Industri*.

There is no specification of risk appetite for each year under review, though the management do spell out relative loan exposure by industry. Risk exposures are indirectly spelt out in terms of sectors to avoid and sectors to beef loans up, depending on the market situation. Basically, in the portfolio committee meetings, they would look out for industries to 'avoid' having too much exposure in.

Other broad policy framework provision includes giving special attention to *Bumiputera* entrepreneurs and women in business.

Sometimes, a moral hazard or dilemma does exist given the broad spectrum of priorities needed to pay special attention. The DFI is ultimately confronted with almost everything being of priority. In the final analysis, the management feels that there could result in ultimately a rather blurred demarcation of which is really the "privileged" sector.

B1.7 Is the generation of surplus a financial goal of the institution as far as its provision of financial assistance for SME development is concerned?

MIDF endeavours not to put itself to be dependent on government and does take the extra mile to be self-financing in its operations. The rationale for its public listing owed to the fact that MIDF has to solve its funding needs. Generally, the overall operation is profitable. However, at the present situation, the company feels the need to have further access to funding as they believe they could do more business. Scarcity of funds is an issue. While MIDF is not a deposit taking financial institution, it would ultimately need to meet the return expectations of funds provided its shareholders and generate surplus to service and repay loans funding provided by lenders.

As MIDF is listed on the KLSE, the expectation of return, and hence profitability, is in built within the organisation culture. Profitability is one of its financial goals.

B1.8 What is the future role of this institution in the next 3-5 years?

MIDF has not yet mapped out a long-term corporate strategic goal yet. What it will become is rather fluid at present. While the management has intention to build up its non-bank group activities, the DFI operations will still be the core business. The institution is currently reviewing its role with BNM.

Despite the fact that the corporate entity completed the sales of its equity stakes in Malaysian International Merchant Bankers and Oriental Bank Berhad in December 2000, its broad commercial banking activities are still maintained with the approval granted by Bank Negara in March 2002 for MIDF's acquisition of all the equity in Amanah Capital Partners Berhad (ACP). ACP's portfolio includes financial services related to the capital and securities market, asset management, insurance, merchant banking, property investment and management, etc. The takeover is the biggest corporate exercise in MIDF's 42-year history with a total consideration of in excess of RM850 million if the acquisition, involving voluntary general offer, is to be funded fully in cash. MIDF announced plans to apply for Universal Broker (UB) status after it completes the acquisition of Amanah Capital Partners Bhd.

Under its non-bank activities, MIDF now has 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 formerly known as MIMB Aberdeen Asset Management Sdn. Bhd).

B2 Communication and Review

B2.1 How often and by whom are the following reviewed:

The management undertakes annual and quarterly reviews of its operations. They review all policy issues, goals, SME exposure and institution performance every quarter. The organisation decision-making process is oriented towards more a collective approach, with formalised meetings held on monthly and weekly basis as well. These are predominantly group-based discussions.

B2.2 What are the objectives of the review:

The primary objective of the reviews and discussions are to check for performance variances and to formulate remedial measures. For example, loans status like approvals and disbursements are incorporated in the monthly meeting while the operational matters are reviewed by the management committee on a weekly basis. Some of the issues that the management team goes through during quarterly reviews included marketing efforts, staffing requirements, and financial results/statements. The weekly meetings involve AGMs, GMs and Directors – about 7-8 people – reviewing the activities and decisions affecting the company.

B2.3 How are the performances and achievements measured:

The performances are evaluated quantitatively – such as, loans approved, disbursed, collection, failure to collect, etc. There is also performance evaluation for staff.

B2.4 How are policy initiatives and product programmes communicated to the implementing executives:

Information dissemination is predominantly via meetings. Channel of communication is via the Post Board or briefings by CEO or Finance Director on Executive Committee meeting decisions. Following the weekly management team meet, any policy changes would be disbursed to implementing executives. Currently, MIDF is not using intranet yet for policy communication. But they are already looking into it and plan to set up intranet very soon.

B2.5 Are implementing executives involved in the performance review of the institution?

Implementing executives are involved in the performance review of the institution. There is also the monthly financial progress review.

B3 Risk-Return Management

B3.1 Performance trend of the institution:

Year (FYE March)	Number of loans made		Amount (RM mil)		Gross Non-Performing Loans (%)	
	Overall	SMEs	Overall	SMEs	Overall	SMEs
1998	n.a.	n.a.	1,342.0	n.a.	n.a.	n.a.
1999	n.a.	n.a.	1,463.7	n.a.	n.a.	n.a.
2000	1,015	533	1,307.3	217.9	45.39	6.86
2001	940	542	1,111.7	238.2	51.27	7.56
2002	906	543	1,070.7	276.3	50.14	8.00

Source: MIDF and Annual Reports

Since the 1997 financial crisis, loans trend has been generally flat to slightly declining. As at 2002, MIDF has about 906 loans with an outstanding value of RM1.1 billion. This was more than a 20% decline from the total loans of RM1.3 billion as at 1998. Loans to SME accounted for 60% of the total number of loans made and 26% of the total loans ringgit value. The average outstanding loans per SME works to about RM500,000.

However, the bulk of the non-performing loans are related to non-SME lending.

B3.2 How is the risk-return managed in the institution:

Basically, the risk management committee (executives from managerial level) would look at industries that presents high risk and would recommend avoidance to such exposure. The committee would report to the internal audit and board committee. A risk management committee is recently set up to articulate a formal risk management process. Before this, the management team may base decisions on the risk-return portfolio on experience and 'feel'. This came about because the management team wish to quantify risks the best they can. Most of the methods used are formulated and tested in-house. The team is now working on a new risk-rating model, which is expected to be used in due course. Ultimately, MIDF would ultimately like to have an organisational infrastructure that can expedite review and classify every exposure. The company endeavours to import into its operations best practices of its sister company.

B3.3 Who in the institution is involved in the following risk-return portfolio:

All management staff from the assistant general managers and above are involved one way or another in reviewing the risk-return portfolio. Basically, the general managers and his assistants, plus two executive directors and the CEO would have a meeting every week.

B3.4 Current profile of the institution's customers:

	Loans Outstanding As At Mar 1998			Loans Outstanding As At Mar 2002		
	No.	RM mil	Gr NPLs Ratio %	No.	RM mil	Gr NPLs Ratio %
By Industry:						
Rubber Products	28	9.9	0.1	33	15.4	0.2
Textile / Clothing	49	28.5	0.3	41	18.0	7.7
Misc Manufacturing	17	4.9	0.1	12	9.6	11.5
Paper & Printing	47	16.0	0.3	48	31.1	20.7
Misc Non-Manufacturing	40	400.4	1.2	58	226.7	35.8
Food, Beverage & Tobacco	64	48.6	0.9	62	47.9	36.1
Plastic Products	73	48.1	0.2	102	78.9	41.7
Wood & Wood Products	87	104.2	2.0	90	98.5	47.3
Non-Metal Mineral Products	57	231.5	0.3	37	124.2	55.3
Mining & Quarrying	7	14.6	0.0	7	8.8	56.2
Chemical Products	30	35.0	0.2	23	21.3	56.9
Metal & Engineering	342	312.5	2.3	392	390.1	67.7
Leather Products	3	0.6	0.0	1	0.2	100.0
Leases Portfolio	251	72.6	0.3	0.0	0.0	0.0
Total	1,095	1,327.4	8.3	906	1,070.7	50.1

In terms of business types, the management indicated that the broad loans distribution is as follows: sole-proprietor and partnership (10%), private limited company (85%) and public limited corporations (5%).

B4. Assistance Useful For Strategic Planning Phase

B4.1 Which areas would you like to see improvement and why?

The management of MIDF is very much comfortable with their in-house capability in policy planning and formulation.

B4.2 Which areas could do with external assistance?

MIDF is ambivalent about risk management training at present. The management believes they have some experience in this area and has adequate staffs to manage the situation. However, at enterprise level, it is not sure yet, as the merger with ACP is still taking place.

C. ACQUISITION

C1. Publicity/Business Development

The marketing of MIDF's financial products and services include;

(a) Occasional setting up special counters in exhibitions

(b) Pamphlets and Brochures

(c) Own website

(d) Advertising. On newspaper and magazine only as it wants to be target market specific

(e) Promotions in the form of MITI seminars

(f) Direct selling by its marketing staffs with the occasional cold calls

The institution relies on its regional network to market to and liase with its potential customer base. Compared to the other DFIs, MIDF has a broader network: its head office is in Kuala Lumpur with a Northern Region Branch in Penang, Perak Branch in Ipoh, East Coast Branch in Kuantan, Kota Bharu Branch in Kota Bahru, Southern Region Branch in Johore Bahru, Sabah Branch in Kota Kinabalu, and Sarawak Branch in Kuching.

C1.2 What level of information on policy guidelines and documentation are made available to the business development and marketing staff:

Products and loan schemes knowledge is not much of an issue. They are generally clear. Updates on products and services are channelled through the various regular meetings held at the organisation.

MIDF provides straightforward facilities for the manufacturing, manufacturing - related services, infrastructure and utility and tourism sectors as follows:

- Fixed Rate Term Loans
- Floating Rate Loans

C1.3 How adaptable or flexible are the guidelines for the marketing staff to package a deal:

The business development or marketing staff are well-acquainted with loan products. Product flexibility is limited as product schemes have fairly fixed features. They are independent enough and can deal with repackaging the schemes or working with other financial institution of collaborative basis. Broadly, the facilities are in the form of:

(a) **Project Loans** – These medium and long-term loans, normally for the period of 5-15 years (including suitable grace period), are granted to assist in financing the acquisition of fixed assets, comprising the purchase of factory land, the construction of factory buildings and the purchase of machinery and equipment. MIDF provides up to 70% financing of the total fixed assets.

(b) **Machinery Loans** – To assist in the financing of machinery and equipment, MIDF offers up to 75% of the c.i.f. cost of machinery for a maximum period of 5 years.

(c) **Factory Mortgage Loans** – For the acquisition of suitable modern factory premises, MIDF operates a factory mortgage loan scheme. Up to 70% of the total cost of land and buildings together with the basic installations such as electrical installations, fire fighting equipment and air conditioning may be granted under these loans on long-term easy repayments of up to 15 years, including grace period.

(d) **Leasing and Industrial Hire Purchase Facilities** – For the acquisition of machinery or equipment, MIDF also offers leasing and IHP credit lines for eligible companies. For established companies with good track records, pre-approved IHP/leasing lines may be considered. MIDF provides up to 90% financing of the machinery/equipment cost for a maximum repayment period of 5 years.

(e) **Working Capital Loans** – For financing working capital requirements. This is structured in the form of a term loan.

(f) **Equity Loans** – On a selected basis.

(g) **Equity Participation** – In the form of ordinary shares, convertible redeemable preference shares and convertible unsecured loan stocks.

<u>C1.4 Are your marketing staff involved in policy and guideline reviews?</u>

The marketing staffs are involved in policy and guideline reviews. Most of the time, it is in the form of recommending certain measures to the committee. Their feedback is solicited.

<u>C1.5 Are financial targets allotted to marketing staff?</u>

The marketing staffs are allotted financial targets as set out in the annual budget targets.

<u>C1.6 Does the institution undertake cross selling of other institutions' SME packages?</u>

With a relatively limited product range, the institution does undertake cross selling with other financial institutions where possible. It is also involved in consortium financing. Recently, it has proposed to collaborate with Alliance Bank Malaysia Berhad (ABMB) on product spread; the institution signed a Memorandum of Understanding (MOU) with Alliance Bank in May 2002 to establish a formal working relationship for the mutual benefit of both parties. The primary purpose of the MOU is to promote the respective businesses of the two parties and enhance the quality and range of services to the respective customers of MIDF and ABMB.

There was also another collaborative deal clinched in May. As per the corporate announcement on the signing of The Energy Efficiency Projects Lending Scheme Agreement For The Energy Service Companies And Industries Under The Malaysian Industrial Energy Efficiency Improvement Project, MIDF has entered into an agreement with Pusat Tenaga Malaysia (PTM) to act as a financial intermediary for dispensing loans to the Energy Service Companies (ESCOs). The Energy Efficiency Projects Lending Scheme Agreement is for the ESCOs and industries under the Malaysian Industrial Energy Efficiency Improvement Project (MIEEIP). The MIEEIP project is co-funded by the Malaysian Government with the objective of improving efficiency in the utilisation of the country's finite energy resources, which will in turn improve the productivity and competitiveness of various industrial sectors. PTM will provide funds up to RM8 million to finance the project and MIDF will in-turn manage the said funds for on-lending to eligible ESCOs.

C2. Credit Evaluation and Analysis

C2.1 How is the credit processing flow in your institution?

The processing operates predominantly on manual basis. Except for the use of PCs to do spread sheet computation, the credit processing flow of MIDF is not automated. Most of the unautomated flow involves subjective matters such as reviewing viability of a business plan. However, processing officer does preliminary appraisal with computers. Signatories are still manual. The format and structure of credit assessment are automated, but the qualitative assessments are not. The time needed to process the loans applications would also depend on the amount, credibility of the borrower and type of loans. Application forms could be available on website in one month's time.

As per the corporate public information dissemination, intending applicants are required to provide basic detailed information to prove their projects are sound and that the conduct of their operation will be under capable and competent management. Upon application, the applicant is required to pay an appraisal deposit (amounting to 0.5% of the loan up to a maximum of RM25,000) which will be credited to the borrower's account upon acceptance of loan offer, to be utilised to offset interest payable during the grace period. Each application will be considered strictly on its merits after careful study of the project and in most cases, arrangements are made for the inspection of premises, equipment and operations by MIDF personnel.

Please refer to **Figure 2** on workflow for loan application and credit processing.

C2.2 What are the basic documents required for processing a loan:

The basic documents needed in applying for MIDF's facilities include:

(h) Memorandum and Articles of Association;

(i) Form 24 and 49 (ROC)

(j) Manufacturing License, or other approvals from the relevant authorities

(k) Audited Balance Sheet, Profit & Loss and Manufacturing Accounts (last 3 years)

(l) Latest draft management accounts for current year

(m) Documents of assets being purchased

(n) Copies of Letters of Offer from banks, hire purchase and lease facilities

(o) Tenancy Agreement, where applicable

(p) Manufacturing process flow chart

(q) Directors' and shareholders' particulars

(r) Listing of all existing machineries/equipment

(s) Others

The broad types of information required for a loan application are:

Applicant's Background: Company's information including name, address, legal status, history and nature of the business and organisation, and capital structure.

Corporate and Management Information: Details of the corporate structure and managerial set-up of the company, including names and biographical notes of the principal shareholders, directors, managers and other key personnel.

Project Description: Description of the project to be financed, including all existing and proposed plant, production facilities and their capacities, labour, raw materials and other essential requirements.

Cost of Project and Funding Requirements: An estimate of the cost of project with breakdown by major items such as land, building, civil works, machinery, ancillary installations, preliminary and pre-operation expenses and working capital, including the proposed means of financing.

Market Review: Review of the market, including an assessment of present and future demand, prices, competition, and description of the existing and/or proposed distribution system.

Operation Plans and Profitability: Information on the planned operation and its estimated profitability, including anticipated sales, selling prices, manufacturing costs and overheads

Other Information: Documents such as copies of Memorandum and Articles of Association, manufacturing licences, relevant approvals from Government authorities, joint-venture, technical assistance and royalty agreements, financial accounts for the last 3 years, (if the company has been operating for more than three years), latest Forms 24 & 49 submitted to the Registrar of Companies, etc.

C2.3 How is the credit worthiness of the applicant assessed and what information or data utilized to determine credit eligibility:

The management committee views the viability of the business as a very vital element in lending. When certain proposals are risky, they would ask for more collateral. Sometimes their decisions are also influenced by bureaucratic factors; for example, if certain projects are government-related and is important for the development of the country, then they have to assume higher risk, though not necessarily higher return, and lend to the borrowers. Sometimes they measure returns not only quantitatively but it can be in the form of its benefits to the socio-economic environment. However the management committee is trying to include more quantitative factors in their credit evaluation.

C2.4 What is the importance of the following in credit evaluation:

Currently, qualitative assessment plays a more important role in the evaluation. The management committee views the viability of the business as a very vital element in lending. When certain proposals are risky, they would ask for more collateral. Sometimes their decisions are also influenced by bureaucratic factors e.g. if certain projects are government-related and is important for the development of the country, then they have to assume higher risk, but not necessary higher return, to lend to the borrowers. Sometimes they measure returns not only quantitatively but it can be in the form of its benefits to the socio-economic environment. The present assessment is on the viability of projections based on market, financial and technical aspects. However, the management committee intends to include more quantitative factors in their future credit evaluation.

C2.5 What role does the following play in the credit evaluation process?

Cash flow analysis

For start-ups, projected financial accounts and cash flow are emphasized. The cash flow analysis is highly vital. The management MIDF has different types of ratios as their tools from which to choose the appropriate ones with different applications. Historical accounts are also important for assessing going concerns.

C2.6 Does the institution employ a schematic credit-scoring framework?

No risk-scoring model is being used at present. In their current work out on a credit-scoring framework, the management is proposing to rely on their experience to determine the variables needed to develop their risk rating model. In short, they are employing a normative approach to build their risk model.

C2.7 Who conducts the credit evaluation:

It is usual for the executives from the business development unit to provide summary account and assessment of the applicants' project proposal. The management believes that there is sufficient check and balance mechanism installed in their loan application processing to ensure that the objectivity of the credit evaluation is not compromised by the marketing needs to meet loan targets.

But for larger loans – say, loans above RM5 million – the applications are referred to the executive committee for their final decision; that is, to approve or to reject the credit application.

C2.8 How long does it take to complete a credit evaluation process:

The application form is considered by the management to be quite short. Average time to send in an application and get an approval is one month. Sometimes, it can be as fast as two weeks. It would be very fast if the application is rejected. Sometimes, the time frame also depends on the borrowers. Insufficient information for credit processing was identified as the main culprit. If borrowers do not fill up the form properly, MIDF staff would need to call them up to clarify things. Sometimes, the borrowers are also reluctant to give out too much information – their attitude could be such that "the less I tell you the better." – thus making the assessment officer job very hard. If borrowers are very creditable and have had very good track record with MIDF, then loan approval would be very fast. As such, the processing of loan application by existing customers is relatively fast. Where the project proposal involves new business, new products and new people, there tends to be more questions asked and hence, the assessment time usually takes longer to undertake.

C3. Credit Structuring and Negotiation

C3.1 How is the funding requirement of the customers determined?

MIDF have a small group of marketing staff who do preliminary evaluation on the applications before sorting out the ones that can be submitted for further appraisal and those that are hopeless. In the process, they will also review the "real" funding needs of the applicants. Finally those applications that have passed the evaluations from these marketing staffs would be submitted to the management committee.

C3.2 Is your marketing staff trained to package the facility for the customer?

There is no issue about packaging of facilities as MIDF's products are generally standardized. If the need arises, the staff can independently structure a financial package.

C3.3 What are the usual terms and conditions employed by your organization in mitigating credit risk during the structuring and packaging of credit facilities:

Very few loans approved are on unsecured basis. Most of the loans are secured due to fixed assets financing; the majority of the loans needed is usually meant for machinery purchases. Sometimes, guarantees are also secured from the company's owners and directors.

C4. Credit Approval

C4.1 Who are involved in the approval of loan applications:

The two main bodies approving the loan applications are the CIC and Executive Committee.

C4.2 Is there loan approval limit delegated to different signatories?

For loans up to RM5 million, the approval is executed at the CIC level, while those above RM5 million, the Executive Committee will have the final say. It is common for all the securitisation of assets to come with a guarantee from the directors of that company.

C4.3 How long does it take to approve a loan after submission of the application form:

C4.4 How long does it take to reject a loan after submission of the application form:

Generally, MIDF has established a one-month target as their goal to arrive at a decision from the receipt of the applications.

C4.5 What have been the historical and current rates of approval in relation to applications received:

Those loans applications that have adequate information and been appraised in-house for final approval stand a 90% chance of success. This is in part due to the fact that those applications that most likely cannot get the loans would be eliminated earlier before even reaching the committee for perusal. Rejection rates are not available; as such rejections are not documented.

C4.6 What have been the historical and current rates of conversion of approved facility to actual disbursement or draw-down:

The rates of conversion of approved loans to actual dispersion are always fluctuating. It depends on the economic situation and business cycle. In 1997, for example, there was some non-disbursement as a result of deteriorating operating environment. There are also times when non-disbursement occurs due to some misunderstanding between either parties or the borrowers changing some conditions and objectives, which would subsequently entail MIDF changing the conditions attached to the loans. MIDF is very particular about the usage of the funds lent out. If the borrowers change even very minor objectives, MIDF might re-look at the agreement. Sometimes, the directors of the borrowing company might have other obligations with other FIs, which might forbade certain conditions laid out by MIDF. Other contributing factors include the fact that many applicants do shop around among the financial institutions and hence, avail themselves with financial options to choose from.

C5. Credit and Legal Documentation

C5.1 Normal period for the legal and credit documentation after a loan is granted:

The duration of credit and legal documentation process is not fixed. A lot depends on whether all the supplementary documents needed are in place.

C5.2 Once the approval has been granted, what are the standard follow-up procedure or action needed before funds can be disbursed or drawn down:

Of course, there is the occasional need to check to ensure that the loan approved to buy the factory is ultimately ended up in the factory purchase and not for personal use.

C6. Assistance Useful For Acquisition Phase

C6.1 Areas would you like to see improvement and why?

No particular areas are seen to be in dire need of outside assistance.

C6.2 Which areas could do with external assistance?

The management felt that experiences like those in India, Bangladesh, Philippines and South Korea, where the agencies have been particularly strong and active in SMI development could serve as useful referencing points. They believe that it would be ideal if MIDF staff could be sent there to gain experience.

D. ADMINISTRATION AND MAINTENANCE

D1. Account Administration and Monitoring

D1.1 Who monitors and supervises the account after loan has been disbursed?

There are two divisions administering and monitoring the accounts. The project side/division would evaluate all loan proposals right up to disbursement of the loans while the loan supervision department would take over and supervise for the duration of the loan. The project division is tasked with evaluating loan proposals, issuing out letters of offer, building in debenture charges, etc. After the disbursement, the loan supervision takes over and follows up with site visits.

D1.2 Follow-up action taken in monitoring the account:

In the follow-up, the loan supervision department officer would visit the borrowers approximately twice a year. For those that are deemed NPLs or have defaulted, the officer would conduct quarterly visit.

D2. Account Collection & Recovery

D2.1 Does the institution have a schematic approach for account collection and recovery?

As far as delinquent payment is concerned, MIDF sets a three-month trigger for required action. During the management meeting every week, they would prepare a watchlist of all the big accounts to check their financial health or whether they have defaulted. It acts as an 'early warning system' to MIDF. Sometimes, even default of two months, the officer would already take action, like calling upon and visiting the defaulting company. There would also monthly reporting of defaulting customers. Even those who default on the first month would be monitored and reassessed by the management team.

D2.2 When is an account deemed delinquent?

The management considers default of up to three months to be critical. Anything more than three months would be considered NPL.

D2.3 What action is normally taken in managing delinquent account?

Normally, when managing NPLs, the officers would visit and talk to them. They would try to come to an amicable solution on both sides. MIDF do have in place rehabilitation funds. Out of the amount lent, 30% can be used on settle NPLs and the rest as working capital. MIDF rarely lend out under this scenario as business in trouble would tend to suck in more funds. Pertinent question would be whether the issue has to do with company facing temporary cash flow problem. The management felt that most of the time, it was the problem about the business management and the owners. Therefore even supplying them with more funds does not necessarily mean they can solve the problem. In the event that it does, it would assess whether the business is still viable or deserving of support and whether the sponsors can sustain its commitments. MIDF would also examine the order book and debts the company is carrying.

D2.4 Normal period to review and make a decision on corrective action on problem accounts:

There is monthly reporting where loans portfolio is reviewed. This monthly task force will also run through the NPLs status and advise follow-up action.

D2.5 Rehabilitation funds available to assist companies with non-performing loan with your organisation:

Rehabilitation funds are available but as in all rehabilitation exercise, the funds cannot only be utilised and applied to an NPL scenario.

D2.6 When would the institution terminate the business relationship with the customer?

That is not the priority of the institution, unless there is no legal recourse or prospect of further recovery.

D2.7 When is a delinquent account written off?

When the borrowing company cannot make payments and are three to six months in arrears, the management will then decide what to do. The delinquent accounts are written off when there are no prospects of further recovery after legal and recovery proceedings. They might also write it off if the balance outstanding is small. If amount is medium to large, they might work out some form of 'waiver' with the defaulting party to salvage the situation.

D2.8 What is the authority of the following in the area of credit control?

The branch managers, in addition to the relevant department heads in the head office, are also responsible for credit monitoring and control.

D3. Assistance Useful For Accounts Administration and Maintenance Phase

D3.1 Which areas would you like to see improvement and why?
No specific issue that needs urgent remedial measures.

D3.2 Which areas could do with external assistance?
Nothing specific.

E. ASSESSMENT OF TRAINING OF DFIs

E1 Current Status Of Training Programmes

E1.1 What have been training budgets in the last three years:

The training budgets for the last three years are as follows:

- 2000 – RM200,000
- 2001 – RM200,000
- 2002 – RM250,000

E1.2 How much budget is spent on:

- Soft skills training [30%]
- Hard skills training [70%]

E1.3 How much budget is allocated for:
- Clerical training [10%]
- Officers/Executives training [55%]
- Managers training [35%]

E1.4 How much budget is spent on:
- In-house training [60%]
- External training [40%]

E1.5 What is the general profile of your trainers:

- Academics [0%]
- Practicing Bankers [15%]
- Professionals In Business [75%]
- Other Professionals [10%]

E1.6 Extent organisation uses foreign consultants in training programmes:
MIDF uses foreign consultants in their training programme to a limited extent only.

E1.7 Are there and have there been any issues with your organization over foreign trainers

No particular issue with foreign trainers. However, it would be more effective if the overseas experience has relevance in their application to the local conditions.

E2 Assistance Useful For Training

E2.1 Which areas would you like to see improvement and why?

As most of the senior management staff will be retiring by financial year 2004/2005, the two areas of human resource development that would prove useful are:

- to develop a management succession plan
- to design individual career path and mobility (for staff retention)

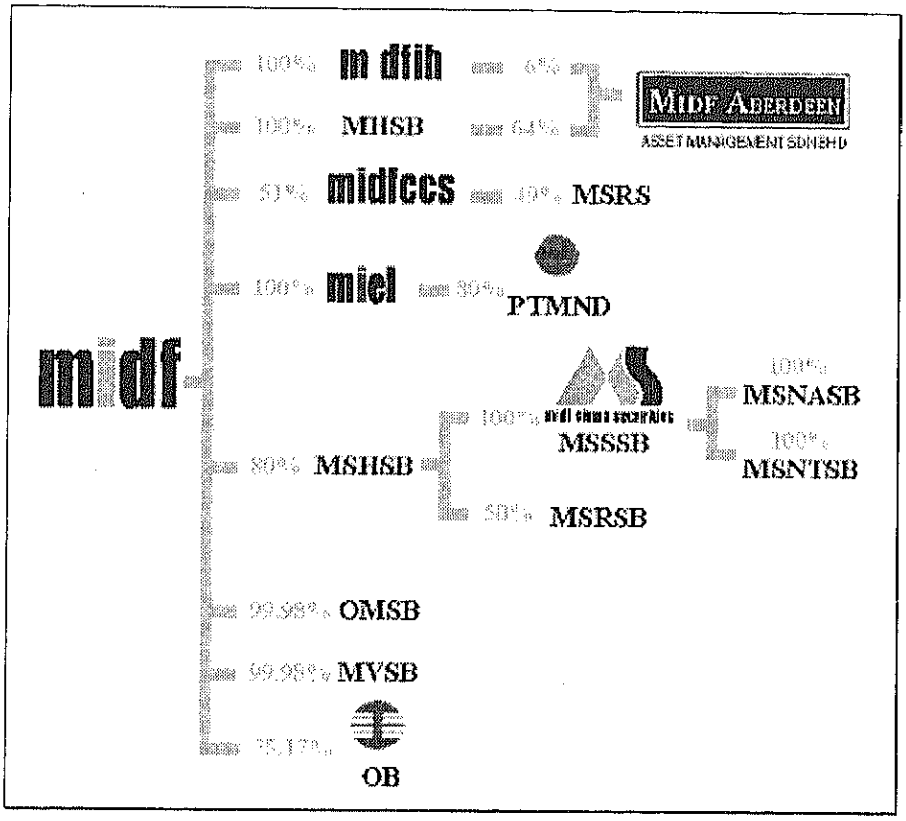
In additional, MIDF would also be interested to seek further assistance in conducting more in-house programme so that the training will not only be cost effective but will also enable more staff to participate.

E2.2 Which areas could do with external assistance?

MIDF would like to some external assistance in the following areas:

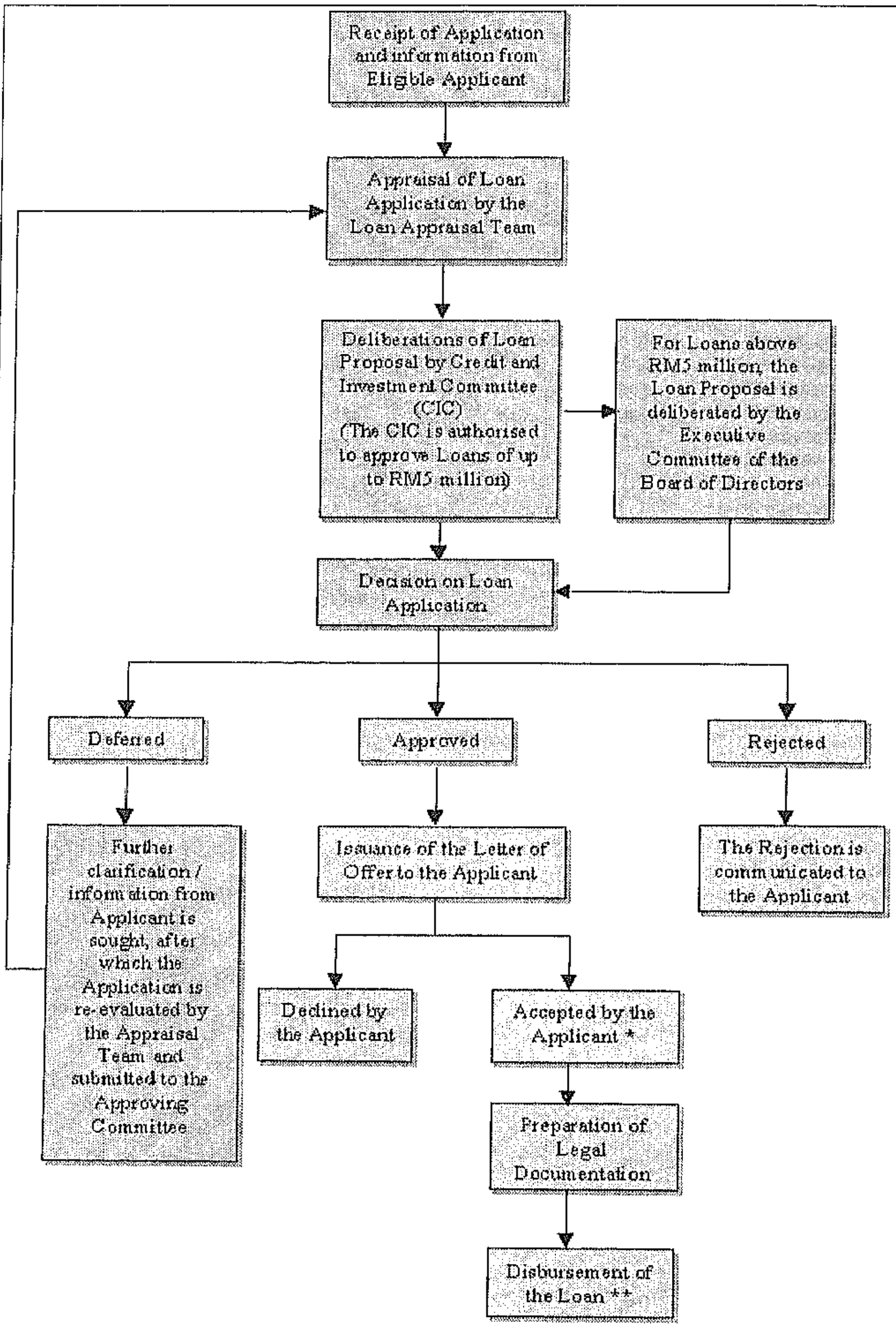
- to review the mission and vision statement and to study the overall organizational structure to help contribute to the company's objectives and goals
- to provide transfer of appropriate technical know-how to ensure that the staff have the appropriate skills, expertise, proficiency, knowledge and desire to do the job; at present, there is a lack of internal resource person on specialized area such as finance, leasing, risk management, Islamic financing, etc.

Figure 1: MIDF Corporate Structure



MIDF	-	Malaysian Industrial Development Finance Bhd.
MIDFIH	-	MIDF Investment Holdings Sdn. Bhd.
MHSB	-	MIMB Holdings Sdn. Bhd.
MIDFCCS	-	MIDF Consultancy and Corporate Services Sdn. Bhd.
MSRS	-	Malaysian Share Registration Services Sdn. Bhd.
OB	-	Oriental 1936 Berhad (formerly known as Oriental Bank Berhad)
MIEL	-	Malaysian Industrial Estates Berhad
PTMND	-	Pt. Miel Nusantara Development
MSHSB	-	MIDF Sisma Holdings Sdn. Bhd.
MSSSB	-	MIDF Sisma Securities Sdn. Bhd.
MSNASB	-	MIDF Sisma Nominees (Asing) Sdn. Bhd.
MSNTSB	-	MIDF Sisma Nominees (Tempatan) Sdn. Bhd.
MSRSB	-	MIDF Sisma Research Sdn. Bhd.
OMSB	-	Omega Matrix (M) Sdn. Bhd.
MVSB	-	Mint Victor (M) Sdn. Bhd.
MIDF Aberdeen	-	MIDF Aberdeen Asset Management Sdn. Bhd.

Figure 2: Loan and Credit Processing



* The Applicant is given not less than 14 days to accept the Letter of Offer, failing which the offer is treated as lapsed.

** Drawdown of loan will take place after completion of legal documentation and compliance by the Borrower of all terms and conditions for loan drawdown.

NOTE:
The time-line from application to approval is up to one month, provided the Applicant has submitted in full all information required for loan processing.