Credit Guarantee Corporation (CGC)

Notes of Meeting with CGC on August 8, 2002 at 3.00 p.m.

Present: Mr. Khoo Khim Ho, Assistant General Manager
Mr. Pun Kai Loon, PE Research Sdn Bhd
Mr. T.Rajavijayan, PE Research Sdn Bhd
Mr. Peter Fong Beet Hume, SBF.com Sdn Bhd

Background

CGC is a credit supplementation institution established to assist entrepreneurs and businessmen to have ready access to financial credit through various guarantee schemes at reasonable costs. CGC helps viable businesses to grow particularly entrepreneurs who lack collateral but needing much financial credit facilities through its various guarantee schemes. Established in 1972, the current shareholders are *Bank Negara Malaysia* (79.3%) and all the Commercial Banks and Finance Companies (20.7%).

Essentially, CGC formulates and administer various guarantee schemes meant for specific target groups. The schemes can be obtained from 2,600 branches of the financial institutions operating in the country. Computer literate customer can have direct access to CGC via its SMI One Stop Loan Centre.

The monitoring of CGC's operations and progress is carried out by both *Bank Negara Malaysia* (BNM) and the Ministry of Entrepreneur Development.

1. STRATEGIC PLANNING PHASE

Policy Formulation

CGC aspires to be the main provider of guarantee to the SME's. Its mission is:

"To help small and medium scale enterprises achieve their objectives through the provision of financial and other services with the highest degree of commitment, professionalism, efficiency and effectiveness and with all human consideration with the full awareness that the mission will be achieved with the blessing of God"

For the financial year 2002, CGC has targeted to extend RM2.0 billion guarantees cover to the SMEs, of which RM 500 million is to be achieved through their Direct Access Guarantee Scheme (DAGS).

The objectives of CGC are two-fold:

- to assist Small & Medium Scale Enterprise particularly those without collateral or with inadequate collateral, gain ready access to credit from financial institution; and
- to complement the Government's effort in promoting and developing business in priority sectors identified by Ministry of International Trade and Industries. These sectors include food production, food processing and tourism industries.

Businesses with net assets or shareholders' fund of less than RM500,000 is eligible to apply.

CGC's objectives are constantly been reviewed to be in line with the requirements of the business environment and the calls of the Government in providing support to selected industries.

In year 2001, CGC managed 8 guarantee schemes, broadly under the **Main Schemes** and **Programmed Lending Schemes**. **Main Schemes** are schemes formulated and implemented by CGC while **Programmed Lending Schemes** are schemes formulated and aided by the Government.

CGC Main Schemes are:

1. New Principal Guarantee Scheme (NPGS)
2. Islamic Banking Guarantee Scheme (IBGS)
3. Direct Assess Guarantee Scheme (DAGS)
4. Small Entrepreneur Guarantee Scheme (SEGS)

CGC's Programmed Lending Schemes are:

1. Flexi Guarantee Scheme (FGS)
2. Franchise Financing Scheme (FFS)
3. Youth Economic Development Programme (TEB)
4. Enterprise Programme Guarantee Scheme (EPGS)

CGC had earlier adopted BNM definition of SME i.e. "a company with a shareholder's fund not exceeding RM10.0 million". However in line with the Government's call for greater support to the SMEs, this definition has been recently revised as follows:

- Manufacturing Sector: Business with net assets or shareholders' fund not exceeding RM10.0 million
- Priority Sector: Businesses with net assets or shareholders' fund not exceeding RM5.0 million. Businesses in priority sectors are activities promoted by the Government to include those with net assets / shareholders' fund not exceeding RM500,000.
- Other sectors: Businesses with net assets or shareholders' fund not exceeding RM2.5 million.

The management is currently deliberating if SMIDEC's definition of SME is to be adopted i.e. small and medium enterprises with annual sales turnover not exceeding RM25 million or employees not exceeding 150. In doing so, CGC could extend the guarantee cover to a wider spectrum of borrowers.

Beneficiary of the Schemes

The Schemes generally benefit:

- all Malaysian owned and controlled company, where the majority of the shareholder is Malaysian.
- all business registered under the Companies Act, 1965, Co-operative Society Act 1996, businesses registered with the Registrar of Business or any other authoritative bodies

- all businesses in the priority sectors promoted by the Government with criteria as earlier defined.

However, these businesses must not have any adverse record with CGC and any financial institutions or be listed under *Biro Maklumat Cek* (Cheque Information Bureau).

Thereafter, for micro guarantee cover, the eligibility is stated in the brochures of the respective schemes.

Performance of the Schemes

	Cumulative Loans Guaranteed		Loans Guaranteed Approved	
	Number	Value (RM million)	Number	Value (RM million)
1998	264,654	146,000	7,960	594.4
1999	297,240	171,000	32,586	2,497.6
2000	313,911	195,000	16,671	2,463.2
2001	320,748	211,000	6,837	1,587.5

In 2001, the total guaranteed loans approved fell from 16,791 loans valued at RM2.5 billion in 2000 to 7,486 loans amounting RM1.9 billion. Of these, some 649 loans at RM352.4 million – or slightly more that 18% of the loans approved 2001 – were loans, without guarantee, granted under the Fund for Small and Medium Industry and New Entrepreneurs Fund 2. The balance of 6,837 loans valued at about RM1.6 billion comprised CGC guaranteed loans under all the schemes.

For FY2001, 9,057 loans valued at RM1,195.9 million were repaid and cancelled (2000: 11,700 loans; RM2,345.4 million). The number of loan accounts that are still subjected to CGC guarantee as at December 31, 2001 comprised 79,867 loans valued at RM8.7 billion (2000: 82,087 loans; RM8.2 million). On a cumulative basis, CGC has guaranteed 320,748 loans valued at RM21.1 billion since its inception.

Claims Lodged	Value (RM million)
1998	94.7
1999	705.1
2000	807.4
2001	270.2

CGC continued to discharge its liability on bad loans claimed by member financial institutions. In 2001, some RM270.2 million claims were lodged; of which, a total of 4,962 claims were processed with 4,361 claims amounting to RM201.4 million settled.

Lending Direction

Loans guaranteed under the various guarantee schemes in 2001, benefited three broad sectors namely: General Business, Manufacturing and Agriculture. The General Business sectors accounted for 5,771 loans valued at RM1,216.2 million, followed by the Manufacturing sector with a total of 969 loans valued at RM349.2 million and the Agriculture sector with a total loan of 95 loans valued at RM22.1 million.

The distribution of loans guaranteed under the Main Schemes by region indicated a concentration in the Federal Territory of Kuala Lumpur, with 17.4 % in terms of number and 26.1% in terms of valued approved.

Under the Programmed Lending Scheme, FT Kuala Lumpur received the most loans, 45.7% in terms of number and 40.3% in terms of value.

Bumiputera entrepreneurs continued to enjoy ready assess to CGC guaranteed loans under the Main Schemes in 2001. Loan to *bumiputera* borrowers under the Main Schemes during the year were RM372.5 million, representing 34.2% and 25.7% of the overall loans approved in terms of number and value respectively. Loans to Chinese borrowers accounted for 61.2% and 71.4% of the overall loans approved in terms of number and value, while Indian borrowers accounted for 4.5% in terms of number and 2.9% in terms of value.

Under the Programmed Lending Schemes, *bumiputera* business accounted for 59.3% of the total loans approved in terms of numbers and 55.9% in terms of value; whereas the Chinese community accounted for 4.5% and 2.9% respectively both in terms of number and value.

Financial performance of CGC

CGC being a non-profit making organisation is responsible to assist in developing the SME's of the country. Despite its developmental and social obligations, the Board and management viewed that the CGC needs to be independent and self-sustainable. Hence, the Board placed emphasis on the financial performance of CGC each year although no performance measurement is introduced.

CGC's operating revenue, are mainly from guarantee fees and interest income. Revenue increased by RM3.3 million (or 2.7%) from RM123.3 million to 126.6 million in 2001. Income from guarantee fees for the year increased by 0.6 million or 1.4% to RM43.2 million compared with RM42.6 million in 2000. Interest income also increased from RM80.7 million to RM83.4 million in 2001.

The operating expenses for the year 2001 increased to RM12.8 million as compared to RM8.1 million in 2000, mainly due to the higher number of staff recruitment to meet its expansion programme. With interest arbitrage amounting to RM37.8 million, total net profit for the year amounted to RM160.0 million compared to RM153.3 million in 2000, representing an increase of RM6.7 million.

CGC has set aside an additional specific provision of RM115.0 million and a write back of general provision of RM8.3 million hence, making a total provision of RM106.7 million for 2001. The total provision to meet claims on loan guaranteed stood at RM278.8 million as at end of 2001.

CGC continued to discharge its liability on bad loans claimed by member financial institutions. During the year, a total of 4,962 claims were processed amounting to RM270.2 million. A total of 4,361 claims amounting to RM201.4 million were settled. CGC registered a net profit of RM160.0 million for the year. However, there was a reduction in the total reserves of RM137.3 million, mainly due to total claims payable of RM295.8 million.

CGC's profitability is sensitive to the economic condition as claims made under the guarantee is normally high during economic down turn. The reverse is also true.

Communication & Review

CGC policies are well communicated to all staff levels. New guidelines are displayed on notice boards at the respective office premises. Operational issues are normally discussed at staff meetings held on an ad hoc basis. Regular staff meetings are held on alternate Saturdays to discuss procedures, guidelines and the "happenings" in CGC. In addition, CGC has a good intranet network to enhance communication amongst executives.

The performance and achievement of the staff are measured by the internal software system operating on Oracle platform. The Key Performance Indicators for the branch are set-up to measured productivity and performance of individual staff.

Risk Management

CGC recently adopted a 3-point Risk Management System, which comprised of the:

- Risk Management Department - whose role is to review all sectors of the Non-Performing Loan
- Risk Management Committee – whose role is to conduct a post study of each delinquent account as to what has gone wrong and how to manage the problem
- Risk Management Information – whose role is to capture all the information of the delinquent accounts for diagnostic review, hence providing the committee with empirical framework to develop their credit solutions.

All policies of the CGC are formulated and recommended by the Senior Management for the approval of the Board.

Assistance Required

Being relatively new in setting up their Risk Management System, CGC requested for technical advice, in setting up and implementation of their risk management system.

With regards to assisting the SME's, there are currently several Government Bodies / Agencies involved in the same role (e.g. Ministry of Entrepreneur Development, Ministry of International Trade and Industry, Ministry of Tourism, SIRIM). A consolidation effort and the formulation of a standard policy are required to better coordinate and assist the SME's. Preferably, an independent and objective consultative body is set up to help merge the roles of all the agencies.

2. ACQUISITION PHASE

Publicity / Business Development

To be the main provider of assesses to credit for the SMI, CGC has conducted extensive promotion of its various guarantee schemes by organising and participating in various activities with some Government Agencies.

CGC has participated in expositions, exhibitions and briefing sessions for the benefit of the public and bankers nationwide. In year 2001, a total of 84 briefing sessions were held all over the country benefiting 16,857 participants.

CGC has 12 branches throughout Malaysia located at Melaka, Kuantan, Kota Bharu, Prai, Seremban, Kuala Terengganu, Kota Kinabalu, Kuching, Kelana Jaya, Alor Star, Johor Bharu and Ipoh. The branches are tasked to promote the Direct Assess Guarantee Scheme (DAGS) as well as to act as a representative office. Branches are encouraged to maintain good relationship with the local business community and financial institutions. As at December 2001, CGC through its branches approved a total of 458 loans accounts valued at RM169.0 million under its schemes benefiting the SMEs throughout the country.

In an effort to leverage on ICT, CGC has on July 9, 2001, launched iGuarantee, a web service portal that offers on-line loan application via the Internet. Apart from applying for loans, SMEs may also advertise their products and services in the SMI Directory Listing web-site for free. While doing so they can get information on CGC and its schemes.

Commencing year 2002, CGC has been organising a monthly "*Hari Bertemu Pelanggan*" (Meet the Client Day) to provide publicity to entrepreneurs and SMIs. This meeting is also a platform to resolve issues directly with CGC's Officers and the Senior Management Team.

To gather better support from the financial institutions, CGC presents their "Top Supporter Award" to three Commercial Banks and one Finance Company annually in recognition of their active participation in promoting the various guarantee schemes.

CGC's marketing staff are internally groomed or recruited from Banks and Finance Companies. They are experience and have good working knowledge in packaging banking facilities for their prospective borrowers. They are also supported by well-defined internal guidelines as to what credit facilities can and cannot be packaged (example foreign exchange cover, equity financing are expressly discouraged).

Market feedback is communicated to the respective Heads of operations via the regular operational meeting. Thereafter the company's policies are reviewed if the issues raised are pertinent and consistent with CGC's objectives.

All branches and marketing staff are given specific sales budgets.

<u>Credit Evaluation & Analysis</u>

About 80% of CGC's credit evaluation processes are automated. The credit processing functions that has been automated are:

- Submission
- Credit memorandum
- Credit analysis
- Query reporting
- Credit checks
- Approval
- Letter of offer
- Billings
- Monitoring and
- Claims

While the credit functions are automated, the whole credit processes are **not integrated.**

The documents requested from the prospective borrowers are similar to that of the Banks. While the information requested is relatively basic, the lending officer still faces difficulty in securing the documents from the borrowers mainly due to the poor habit of SMEs in maintaining proper records and accounts. He suggested the an accredited Professionals or Government Bodies should be set up to help the SME maintain a proper accounting records and also help procure the relevant documents for their credit application.

Applications are assessed based on credit eligibility and viability of the applicant's business. Viability herein infers that the:

- industry is viable
- business is making profits
- business registered an upward sales trends (from its historical records)
- business financial health is satisfactory
- business has the ability to generate cash flow

Credit assessment is done using a normative framework based on the 4 C's of lending i.e. Capital, Capacity, Character and Conditions. In line with the spirit of CGC's mission, Collateral is normally not requested. However, it maybe imposed for purposes of "testing" the commitment of the Borrower or ensuring better control over the SME's borrowings. Collateral such as guarantee, fixed deposit and even debenture has been requested from the applicant.

CGC places equal emphasis on the qualitative and qualitative aspect of credit evaluation.

Credit scoring is used in the evaluation of borrowers. However their Risk Rating model is used in the evaluation of the borrowers and the financial institutions. Financial Statements is used to analyse the past performance of the business while financial projection is used to determine the serviceability of the loan. Cash flow submitted is sensitised. It is used to determine the repayment capacity of the business based on several sets of assumptions.

<u>Credit Structuring & Negotiation</u>
The credit facilities applied by financial institutions are accepted unconditionally. As a rule, CGC do not question the appropriateness and adequacy of the credit facilities submitted.

However when the application is received directly from their branches (via DAGS), the Branch Officer is expected to study and package the applicant's working capital requirements.

CGC facilities can be applied in three ways:

1. Through Financial Institutions: Normally, the lending institution would evaluate their loan applications received. In the event if they deemed that the application carries with it credit risks beyond their acceptable profile, the lending institution would apply to CGC to seek extra comfort. They will then take the necessary steps to secure CGC guarantee cover. The process in obtaining the cover takes about two weeks.
2. Through the 12 CGC Branches: All credit applications can be submitted to the nearest CGC branch via DAGS. The application together with relevant documents will be

processed and evaluated by CGC in collaboration with the participating financial institutions. The process takes about 2 weeks to a month.

3. Through the Internet: Prospective Borrowers can apply for guarantee right from their own home and at a time convenient to them. All the applicant needs to do is to log on and complete one online loan application form. The initial assessment will take up to 2 weeks. On completion, CGC will submit the loan for bidding with interested financial institutions. Thereafter, CGC would then match the offers. The entire process takes about 4 weeks.

Credit Approval

Loan approval is based on the cumulative size of the guarantee cover. In the event if the applicant has more then one account with the financial institutions, the respective facilities is aggregated to determine the size of the cover. The following authorised personnel then approve the application:

Aggregated Loan Size	Authorised personnel
Less then RM250,000	Assistant General Manager
RM250,000 to 1.0 million	Managing Director
More then RM1.0 million	Loans Committee

At most, approval for each submission is done within 2 working days.

CGC's approval rate is about 90%. Rejections are made mostly on grounds that they do not meet the basic requirements set-forth such as poor track record, business not viable, businesses that have high failure rates. While most guarantees approved are drawn down, there is about 1.0% who does not because:

- Applicants are unaware that they have to pay the guarantee fee
- Purpose of the loan has been altered
- Projects were abandoned
- Applicants were unable to meet pre-disbursement conditions (such as capital injection, or capitalisation of directors advance)

Credit & Legal Documentation

The Lender panel of solicitors handles the legal documentation submitted by them. However in the event that the application is made via DAGS, CGC's panel of lawyer handles the documentation. This process is relatively fast (about 3 days) as their solicitors have the standard template. In the event if collateral is taken, the process may take a little longer as some collateral takes about a month or so to perfect.

It is a standard practice to conduct field visitation and inspection of assets finance before draw down.

Mr. Khoo expressed that funding could be considered in the area of training. (Refer to Training)

3. ADMINISTRATION & MAINTENANCE

Account Administration and Monitoring

The financial institution monitors and supervises the conduct of accounts after it has been drawn down. For application submitted under the DAGS, CGC's Loan Monitoring and Rehabilitation Department monitors the conduct of accounts. CGC has 10 Recovery Officers and 10 Supervision and Rehabilitative Officers in their Loan Monitoring & Rehabilitation Department.

The monitoring of the financial institution customer's accounts are done by reviewing the **Recovery Action After Classification – RAAC** listing submitted to CGC. For CGC's DAGS customers, the internal overdue listing would be used.

Account Collection & Recovery

All financial institution is required to classify all credit facilities as non-performing in accordance with BNM's rule on interest suspension (GP3). Upon classification, the financial institution is to make a claim against CGC (under a prescribed form - RAAC) within one month from the date of such classification. Failing to comply with the said dateline will void the guarantee.

After submission of the said claims, the financial institution collection department continues to review and act on the accounts. Actions to be taken include, sending of reminders (1, 2 and 3), field visitation, legal notice of demand, and legal action to the stage of judgement and execution. CGC have the liberty to intervene and undertake a nursing programme on defaulting account.

The Lender may terminate the Guarantee Cover at any time by submitting a written notice to CGC and returning the original copy of the Letter of Guarantee (NPGS-2). The Classified loan is then crystallised at the end of the RAAC period. The amount crystallised should represents the principal loan plus interest up to the end of the RAAC period less all recoveries and other charges taken during that period. A claim under a prescribed form NPGS-4, is to be lodged at anytime after / within the 6 months from the end of the RAAC period. Failure to do so will render the Guarantee void.

The normal actions taken by CGC in managing the delinquent accounts include:

- regular collection reviews and follow-up
- field visitation
- workouts
- amicable settlement - negotiation for repayment
- re-scheduling
- disposal of assets and uplifting of securities

Claims submitted by the financial institution are normally honoured by CGC unless it does not fulfil the following requirements:

- Failure to pay the guarantee fee within the specified period
- Misrepresentation of material facts

- Failure to notify CGC of the classification of non-performing loans within the specified period
- Material defects in the account or security documentation which adversely prejudice CGC's interest
- Failure to comply with the Lender's Head Office approval terms and conditions

Failure to notify and obtain CGC's approval on any material change in the loan structure affecting the risk sharing ratios between CGC and the Lender

Claims disbursed should not be utilised to reduce the liability of the defaulting borrower and guarantor (if any). This is to preserve the rights of CGC against the borrowers. Such payment should be credited to a separate account to be designed according to the respective Lender's own accounting procedure.

All monies recovered subsequent to the settlement of the claims should be remitted to CGC half yearly according to the guaranteed ratio.

The collection actions done by the Loan Monitoring & Rehabilitative Department are somewhat similar to the action taken by the financial institution officer. On detecting the arrears, the Officer is to initiate immediate collection action such as calling the borrowers (over the phone or field visitation) to determine the cause(s) of default.

Consistent with the spirit in assisting the SMEs, CGC would consider corrective programmes in managing the delinquent account. Options such as, extension of time, workout, servicing of interest, revision of repayment term, freezing of late payment interest and additional funding requirements are explored.

In a rehabilitative programme, additional funding could be arranged from financial institution (before it is classified as NPL) or from the Entrepreneur Rehabilitative & Development Fund via DAGS. It is rare that CGC would terminate the relationship with the borrower but this option is considered if the circumstances warrant it. Accounts will be terminated and written off in the event where the borrower had deceased, business ceased operations, borrower is adjudged bankrupt by their creditors or on occasion where the cost of recovery is more then the amount recoverable.

All collection options to assist or to terminate the relationship with the borrowers must have the approval of the respective authority. Normally, the decision is made provided the submission is well justified and supported by the required documents.

While the Banks classify their accounts as NPL under the BNM's guideline, CGC do not reclassify their claims. However, for recovery actions, the claims are informally categorised by the Recovery Officers as follows:

- Mildly recoverable
- Moderately recoverable and
- Dead-wood accounts

CGC is currently a member of the Asian Credit Supplementation Institution Confederation (ACSIC) whose member comprised of 9 member countries namely, Japan, Korea, Taiwan, Thailand, Philippines, Indonesia, Nepal and Sri Lanka. The member meets annually.

Mr. Khoo advised that exchange of ideas brings with it invaluable information and CGC has benefitted from it. Unfortunately, only one member from each member country can attend. He proposed that the collectors within the region meet frequently to exchange collection ideas to explore the possibilities of discovering better and innovative ways in resolving problem loans

4. TRAINING

About 40% of the training budget is spent on soft skills training to assist new officers, (normally ex-bankers) to adapt and accept the culture of CGC. The training budget trained Clerical (10%), Officer/ Executive (70%) and Manager (20%). Most of the budget (about 10%) are spent on in house training while about 90% for external trainer whose profile are practising bankers and professional in business. CGC do not engage foreign consultant as they are expensive and may not have the local "feel".

Mr. Khoo feels that technical support can be considered, provided that it is confined to the field of guarantee. Budget should be sufficient to enable staff to have "hands on" exposure in the chosen field and subject.

He suggested that training be done in two stages. Initially an exposure or familiarisation meeting should be conducted to help members to understand the modus operandi of the other Guarantee Corporation.

This exposure should then help participants to determine common subjects to be discussed in the future.

Institut Bank-Bank Malaysia (IBBM)

Notes of Meeting with IBBM on October 30, 2002 at 2.30 p.m.

Present: Dr Tan Keng Song, Director
Puan Noridah
Mr. Pun Kai Loon, PE Research Sdn Bhd
Ms Lim Pao Li, PE Research Sdn Bhd

Background

Institut Bank-Bank Malaysia (IBBM) which was established in November 1977 is the professional and educational body for the banking and finance industry in Malaysia. The Institute is a company limted by guarantee and is governed by a Council which consists of representatives from Bank Negara Malaysia, the Association of Banks in Malaysia, Association of Finance Companies of Malaysia, Association of Merchant Banks in Malaysia and members elected at the Annual General Meeting.

IBBM offers a wide range of continuing professional development programmes and a multi-tiered qualification structure. These programmes are designed and developed to offer a training progression that systematically equip participants including commercial bankers, merchant bankers, **development bankers**, financiers, regulators, fund managers and insurers with the relevant skills required. All programmes are continuously reviewed and enhanced in close consultation with industry experts and practitioners to ensure currency and applicability at the workplace. In addition to these programmes, the IBBM also assists individual institutions in designing training programmes to meet their specific training needs.

The Institute's qualification framework (see Figure) provides a progressive route to attaining qualifications in banking and financial services from certificate to degree level.

To further assist professionals in the banking and finance industry keep abreast of developments and current issues, the Institute also organises regular conferences, talks and seminars.

IBBM has 10 branches nationwide to meet the training and educational needs of its members. The branches are located at:

- Alor Setar, Kedah
- Penang
- Ipoh, Perak
- Malacca
- Johore Bahru, Johore
- Kota Bahru, Kelantan
- Kuantan, Pahang
- Kuching, Sarawak
- Kota Kinabalu, Sabah
- FT Labuan

Participation of DFIs in IBBM programmes

Although it is not mandatory for DFIs to be a member of IBBM (or to contribute to the Staff Training Fund[21]), currently the following five DFIs are members of IBBM:

- *Bank Kerjasama Rakayat Malaysia Berhad*
- ***Bank Pembangunan dan Infrastruktur Malaysia Berhad***
- Export-Import Bank of Malaysia Berhad
- **Malaysian Industrial Development Finance Berhad**
- Sabah Development Bank Berhad

These DFIs have made use of IBBM to carry out training programmes, including requesting for IBBM to arrange for customised training (50%) for their staff.

Other DFIs including *Bank Pertanian Malaysia*, *Bank Simpanan Malaysia* and ***Bank Industri dan Teknologi Malaysia***, who are non-IBBM members also participate in IBBM's training programmes.

Training Programmes offered by IBBM

The training programmes offered by IBBM cover the following topics:

- Audit
- Credit
- Front-line Operations
- Human Resource Development
- Information Technology
- International Trade Finance
- Investment and Capital Markets
- Risk Management
- Treasury

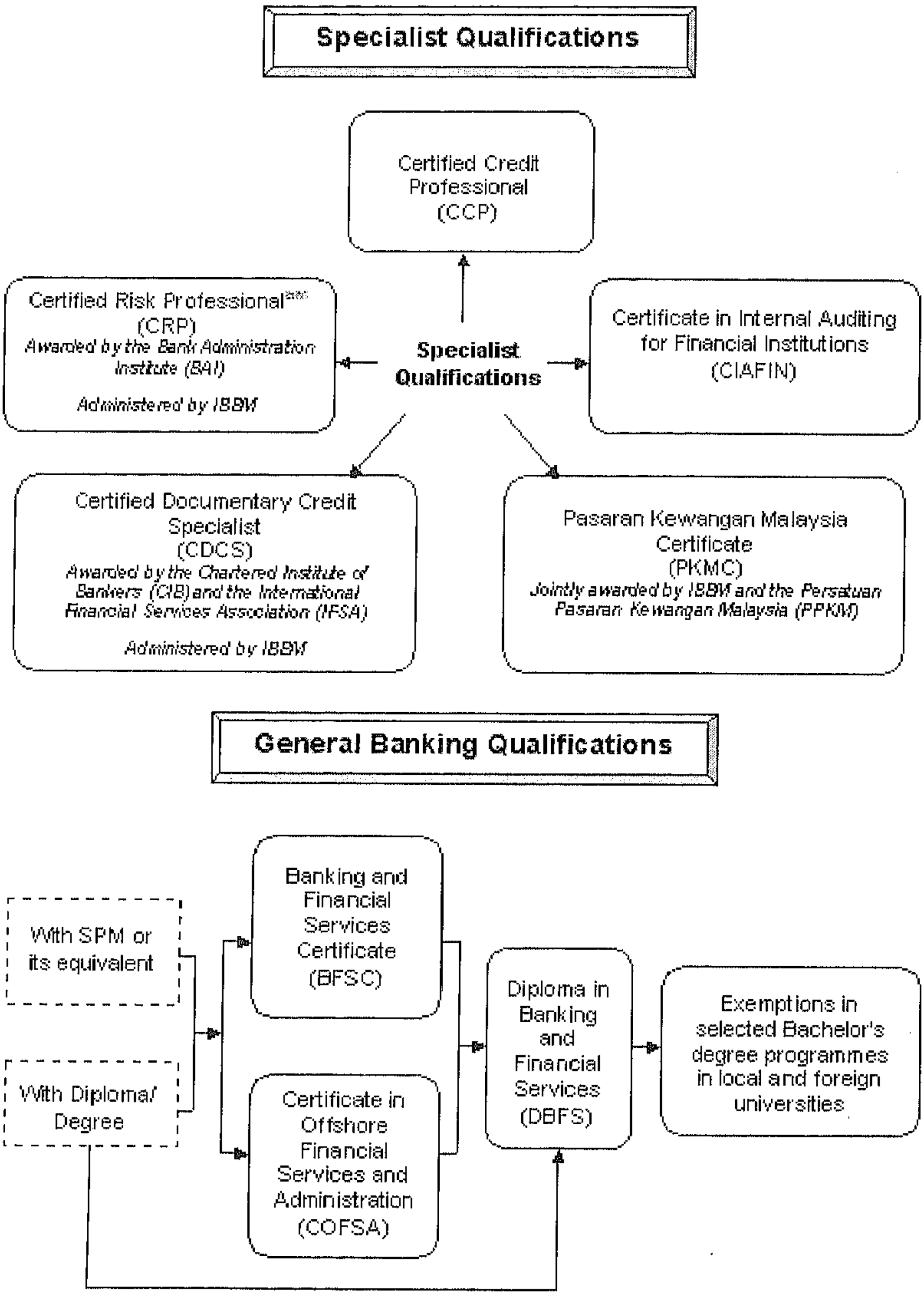
General

IBBM has also provided training for financial institutions from the ASEAN region including Indonesia, Myanmar and Brunei.

In addition, IBBM is currently working with CGC to encourage SMEs to participate in its training programmes, but response to date has been lukewarm.

[21] The Staff Training Fund (STF) was created by Bank Negara in 1985 to establish a fund for training of staff from Financial Institutions that fall under BAFIA. Contribution to the STF is based on staff strength. IBBM is the Secretariat for the Fund.

IBBM QUALIFICATIONS FRAMEWORK



Ministry of Finance (MOF)

Notes of Meeting with MOF on November 11, 2002 at 10.00 a.m.

Present: Encik Hasan Ismail, Deputy Secretary, Market Supervision Section, Loans and Finance Policy Division

Che Yusof Che Mat, Principal Assistant Secretary, Bank Industry Unit

Mr Ara Hitoshi, Assistant Resident Representative, JICA Malaysia Office

Mr. Pun Kai Loon, PE Research Sdn Bhd

Ms Lim Pao Li, PE Research Sdn Bhd

Introduction and Background

The meeting was arranged with the principal officers from the Market Supervision Section[22] of the Loans and Finance Policy Division of the Ministry of Finance. This section is responsible for supervision of DFIs.

Mr. Ara briefed the MOF officers on the purpose of the visit and the nature of the project. He also informed them that as part of the study, the team has interviewed BNM as well as the focussed DFIs. The project is moving towards formulating technical co-operation projects to assist DFIs that are focussing on the SME sector as well as to formulate technical assistance to help BNM as the implementing agency in its DFI regulatory role.

The main objectives of the discussion with the MOF is to develop a better understanding of the policy of MOF regarding strengthening DFIs to meet the financing needs of SMEs as well the role of MOF in the relationship between BNM and the DFIs in the context of the FSMP as well as the DFIA.

Policy on Strengthening DFIs and SMEs

MOF policy regarding developing SMEs is in accordance with that of MITI, i.e. to develop SMEs like other East Asian countries so that they play an important role to support economic development. However the development of Malaysian SMEs is hampered by (i) low technology, (ii) **lack of finance**, (iii) limitations in marketing and (iv) lack of skilled manpower. To address the lack of finance the Government has set up DFIs to complement the role of the financial institutions.

Although the DFIA currently only encompass six DFIs, the long term plan is to bring in all DFIs that do not fall under BAFIA under the umbrella of DFIA. This move is to instill corporate governance in the DFIs.

Role of MOF and Inter-agency Relationships

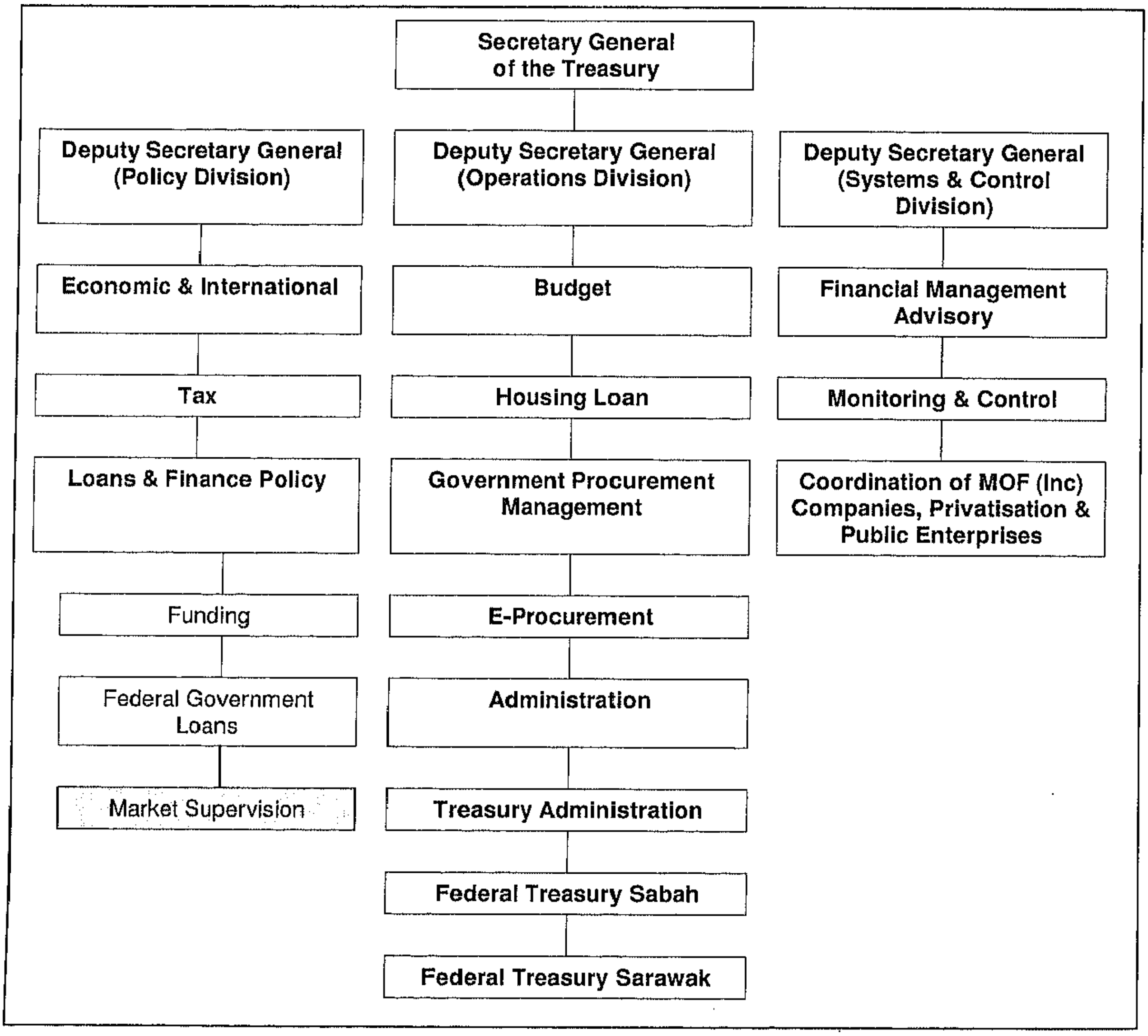
To facilitate BNM to carry out its supervisory role in accordance to the Act, since the DFIs still fall under the ambit of their respective ministries, a committee comprising respresentatives from the respective ministries and BNM has been set up. The Act also provides for the MOF (Minister) to intervene for the betterment of the industry.

22 The organisation structure of the MOF follows these interview notes.

On BNM's initiative towards building its technical capability in order to be able to provide technical advisory services to SMEs, the MOF is comfortable with this move as it is felt that this would complement the other government initiatives that are being carried out largely through MITI. Furthermore, MOF is also comfortable with initiatives towards establishing systems and methodologies (and databases) to enable DFIs to avail on technical expertise to advice SMEs.

The involvement of BNM in SMEs (through the SME taskforce) does not conflict the role of SMIDEC as BNM will be addressing financial management aspects while SMIDEC addresses overall development aspects. In fact, SMIDEC under this arrangement, SMIDEC will be able to obtain BNM's assistance if DFIs are not giving enough assistance/cooperation to SMEs.

Organisation Chart of Ministry of Finance



Source: Compiled from Ministry of Finance, Economic Report 2002/2003 and www.treasury.gov.my (as at November 12, 2002).

Acronyms

3F	Fund for Food
4C	Capital, Capacity, Character and Condition
ABMB	Alliance Bank Malaysia Berhad
ACP	Amanah Capital Partners Bhd
ACSIC	Asian Credit Supplementation Institution Confederation
AJDF	ASEAN-Japan Development Fund
ASEAN	Association of South East Asian Nations
ATM	Automated Teller Machine
BAFIA	Banking and Financial Institutions Act
BEPF	*Bumiputera* Entrepreneur Project Fund
BITMB	*Bank Industri dan Teknologi Malaysia Berhad*
BLCP	Bank Letter of Credit Policy
BLR	Base Lending Rate
BNM	*Bank Negara Malaysia*
BPIMB	*Bank Pembangunan dan Infrastruktur Malaysia Berhad*
BPM	*Bank Pertanian Malaysian Bhd*
BSN	*Bank Simpanan Nasional*
CCP	Certified Credit Professionals
CEO	Chief Executive Officer
CF	Corporate Financing
CGC	Credit Guarantee Corporation
CIC	Credit and Investment Committee
CMR	Credit Monitoring and Recovery
DA	Documents Against Acceptance
DAGS	Direct Access Guarantee Scheme
DFI	Development Financial Institution
DFIA	Development Financial Institutions Act 2002
DP	Documents Against Payment
E&E	Electrical and Electronics
ECG	e-commerce gateway
EPGS	Enterprise Program Guarantee Scheme
ERDF	Entrepreneurs Rehabilitation and Development Fund
ERF	Enterprise Rehabilitation Fund
ESCO	Energy Service Company

EXIMB	Export Import Bank of Malaysia Bhd
FFS	Franchise Financing Scheme
FGS	Flexi Guarantee Scheme
FI	Financial Institution
FSMI	Fund for Small and Medium-scale Industries
FSMI 2	Fund for Small and Medium-scale Industries 2
FSMP	Financial Sector Master Plan
FSMP SC	Financial Sector Master Plan Steering Committee
FYE	for year end
GGS	General Guarantee Scheme
HR	Human Resource
HRD	Human Resource Development
IAF	Industrial Adjustment Fund
IBBM	*Institut Bank-Bank Malaysia* (Institute of Bankers Malaysia)
IBGS	Islamic Banking Guarantee Scheme
ICT	Information and Communications Technology
IDB	Islamic Development Bank
IDP	Infrastructure Development Programme
IFBS	Interest Free Banking Scheme
IIS	Interest Income Suspense
ILC	Irrevocable Letter of Credit
IMP2	Second Industrial Master Plan
IT	Information Technology
ITAF	Industrial Technical Assistance Fund
JBIC	Japan Bank for International Co-operation
JICA	Japan International Cooperation Agency
JVPS	Joint Venture Promotion Scheme
KLSE	Kuala Lumpur Stock Exchange
LFX	Labuan International Financial Exchange
M&A	Memorandum and Articles of Association
MAS	Modernisation and Automation Scheme
MAVCAP	Malaysia Venture Capital Company Sdn Bhd
MDC	Multimedia Development Corporation
MDV	Malaysia Debt Ventures Berhad
MECIB	Malaysian Export Credit Insurance Bhd
MED	Ministry of Entrepreneur Development
MIDF	Malaysian Industrial Development Finance Berhad

MIDFCCS	MIDF Consultancy & Corporate Services Sdn Bhd
MIDFIC	MIDF Industrial Consultancy Sdn Bhd
MIDFIH	MIDF Investment Holdings Sdn Bhd
MIEEIP	Malaysian Industrial Energy Efficiency Improvement Project
MIEL	Malaysian Industrial Estates Berhad
MIMB	Malaysian International Merchant Bankers Berhad
MITI	Ministry of International Trade and Industry
MNC	Multi National Company
MoF	Ministry of Finance
MOU	Memorandum of Understanding
MRD	Ministry of Rural Development
MTDC	Malaysia Technology Development Centre
NEF	New Entrepreneurs Fund
NEF 2	New Entrepreneurs Fund 2
NPC	National Productivity Corporation
NPF	Non Performing Financing
NPGS	New Principal Guarantee Scheme
NPL	Non Performing Loan
OA	Open Account
OII	Overseas Investment Insurance
PAKSI	Financial Package for SMEs *(Pakej Kewangan Untuk PKS)*
PC	Personal Computer
PF	Project Financing
PGS	Principal Guarantee Scheme
PNB	*Permodalan Nasional Berhad*
PTM	*Pusat Tenaga Malaysia*
QES	Quality Enhancement Scheme
R&D	Research and Development
RAM	Rating Association of Malaysia
RFSMI	Rehabilitation Fund for Small and Medium Industries
ROA	Return On Assets
ROC	Registrar of Companies
ROE	Return On Equity
SCF	Special Contract Financing
SDB	Sabah Development Bank
SDP	Skills Development Programme
SEAP	SME Experts Advisory Panel

SEF	Small Entrepreneurs Fund
SEGS	Small Entrepreneur Guarantee Scheme
SF	Share Financing
SIRIM	Standards and Industrial Research Institute of Malaysia
SLS	Special Loan Scheme
SLSME	Soft Loan for Small & Medium Enterprises
SME	Small and Medium Enterprise
SMET	SME Tourism Fund
SMI	Small and Medium Industry
SMIDEC	Small and Medium Industries Development Corporation
SMIDP	Small and Medium Industry Development Plan
SMILAX	Small Medium Industries Loan Assistance for Expansion Plan
SMIPP	Small and Medium-scale Industry Promotion Programme
SCF	Special Contract Financing
SSE	Small-scale Enterprises
TEB	Youth Economic Development Programme
TOR	Terms of Reference
TPU	*Tabung Pemulihan Usahawan* (Enterprise Rehabilitation Fund)
VCC	Venture Capital Company
VPP	Vendor Participation Programme
TPU	*Tabung Pemulihan Usahawan* (Enterprise Rehabilitation Fund)

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